# THE FREEMAN

IDEAS ON LIBERTY

## The Samaritan's Dilemma and the Welfare State

## What Garbage Crisis?

## Price Controls Do Not Control Prices

JUNE 1991

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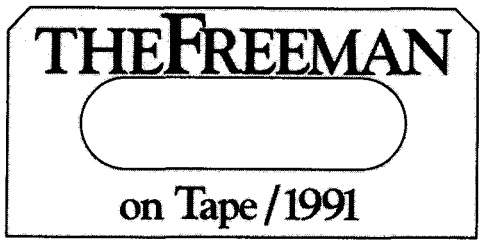


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PERSPECTIVE

## Why Welfare Fails

First, government has no money of its own. What money it spends must be taken from the people, or borrowed in the people's name. Therefore, when it takes money from some people and gives it to other people, it is engaging in legal plunder.

Second, the forced transfers are two-edged: those from whom the money is taken are aggrieved, while the recipients are demoralized—they have given up some responsibility in exchange for some dependence.

Third, to the extent that they are dependent, the recipients are less inclined to work harder to improve their condition or to save for retirement.

Fourth, once the transfers have begun, they build their own momentum. The bureaucracy that administers them has a self-interest in expanding both its clientele and the range of transfers it offers.

Fifth, by definition the transfers are taken from the productive sector. More and more of the wealth it creates, instead of being reinvested for the benefit of the whole society, is diverted into consumption.

—KENNETH MCDONALD
Toronto, Canada

## Too Many People?

The fact that a country is poor . . . does not mean it is overpopulated. . . . China has the same population density as Pennsylvania. Countries like Taiwan, with five times China's population density, and South Korea, with four times the density, out-produce her four and five times respectively. Is the problem too many consumers or too many commissars?

—FRANK RUDDY, writing in the
May 1990 issue of *Crisis*

## Red Tape in Bangladesh

It is in the Second Nine-Story Building at the Government's central Secretariat that much of life in this nation of 100 million people slows to a standstill.

Here, in their offices along dark, winding corridors, some of the Government's 1.2 million bu-



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reaucrats sit almost motionless amid towering stacks of dusty files tied neatly, by 19th century British tradition, in red tape.

"We move a file from here to there, but no work is done," said a senior Government official. . . .

"The more senior the officer, the higher the stack of files on his table, said A. R. H. Doha, a former Foreign Minister who said one of his main accomplishments in office had been to throw heaps of 40-year-old files out of the window. . . .

Each day, outside the guarded gates of the Secretariat buildings, scores of petitioners gather to pursue the fate of their applications, some of which, tied with a delicate bow in red—or white—tape, have been waiting action for years.

—*The New York Times*

## Twenty Miles

While driving to Delaware recently, I crossed the George Washington Bridge from New York City to New Jersey. As I went over the bridge, I glanced at the odometer; it is 20 miles from FEE to the bridge.

You see a lot in those 20 miles. There are palatial homes, middle class neighborhoods, and the slums of the very poor. How, I wondered when I returned to my desk the next day, can we reach so many different people?

On one level, of course, we do reach people from all walks of life. *Freeman* articles appear in newspapers across the United States, from the *Street News* hawked by New York City's homeless to *The Wall Street Journal*. Our Spanish-language translations appear throughout Latin America. *Reader's Digest* reprints *Freeman* articles in several languages around the world. *Freeman* authors even appear on talk shows.

But on another level, the written and spoken word can only go so far. Our message can help people to understand the freedom philosophy; it can inspire them to want to learn more. But in the final analysis, real change must come from within our own homes, our own families, from within ourselves as individuals. We must serve as exemplars, and live the philosophy we espouse. Then we will reach the most important people in our lives, and, with patience and consistency, our message will spread to the ends of the earth.

—BRIAN SUMMERS

## Environmentalism and Capitalism

Our planet's environmental problems will only worsen if the artificially created gap between environmentalism and capitalism is allowed to widen. Although far from perfect, a free market is the most efficient way of distributing commodities to consumers. This basic principle holds true whether that commodity is bread or clean air. It is no coincidence that there is a dire shortage of both bread and clean air in the Soviet Union. Instead of suppressing capitalist forces, environmentalists should harness these forces to the planet's benefit.

—GRANT THOMPSON, writing in the December 1990 *Carolina Critic*

## A Big Mistake

Todor Zhivkov, Bulgaria's deposed Communist dictator, long regarded as the East bloc leader most subservient to Moscow, looked back on his long political career during an interview . . . and said it was all a big mistake.

"If I had to do it over again, I would not even be a Communist, and if Lenin were alive today he would say the same thing," said Mr. Zhivkov as he sat in his granddaughter's luxurious villa on a hillside above Sofia, where he remains under house arrest.

Mr. Zhivkov, 79 years old, ruled Bulgaria for 35 years before being forced to resign just over a year ago. He said he began to doubt the Communist system in the mid-1950s and realized after the rise of Mikhail S. Gorbachev in the Soviet Union that Communism's underpinnings were faulty.

"I have been a soldier, I have been a Communist, it is my deep belief and conviction that I served my people and my country," Mr. Zhivkov said. "But I must now admit that we started from the wrong basis, from the wrong premise. The foundation of socialism was wrong."

—CHUCK SUDETIC, writing in the November 28, 1990, issue of *The New York Times*



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# What Garbage Crisis?

by Charles W. Baird

Last November, several state-wide environmental initiatives—most notably California's $12 billion "Big Green" and a $2 billion New York bond issue for land acquisition, dump closures, and recycling subsidies—failed to pass. Big Green was defeated by a 2-to-1 margin. The then-emerging economic recession has been given most of the credit, or blame, for these outcomes, but there is more to it than that.

The general public is, at long last, beginning to take a more cautious, critical attitude toward the claims of the environmental establishment. Environmental values are still important to the electorate, but so too are other values such as common sense, individual freedom, property rights, jobs, and economic well-being. Moreover, the general public is beginning to recognize that much environmental hectoring consists of gross exaggerations and sometimes, as in the case of Big Green, directly contradicts elementary scientific principles as well as readily available evidence.

For example, the advocates of Big Green overstated the risks of pesticides on fruits and vegetables by 2,600 to 21,000 times.[1] If they had won, produce grown outside of California that didn't meet Big Green's pesticide standards could not have been sold there, and the prices of California produce would have risen dramatically. Most physicians agree that eating fresh fruits and vegetables is a good way to reduce the incidence of cancer in the digestive system. As University of California biochemist Bruce Ames has pointed out, if Big Green had passed, Californians would have eaten fewer fresh fruits and vegetables and therefore would have increased their risk of getting cancer.[2]

Environmental extremism has become the principal means by which many collectivists hope to achieve their dream of a thoroughly regulated, controlled, and planned economy.[3] The Red Star is burned out, but the Green Star is rising.

## A Quasi-Religion

Consider, for example, the alleged garbage crisis. This year, Congress must decide whether to reauthorize the Resource Conservation and Recovery Act, which is the principal Federal waste disposal law. There is no doubt that Congress will indeed reauthorize this act, and, if the Green Lobby has its way, the law will be substantially strengthened. For example, recycling, regardless of whether it is cost efficient, will be made mandatory for everyone throughout the country.

Environmentalists have already done substantial propagandistic groundwork. For example, recent TV pictures of garbage-ladened barges in search of a dumping place were skillfully used by the Greens to suggest that the U.S. is about to drown in municipal solid waste unless we sinful, profligate American consumers reduce our wasteful consumption and take the recycling pledge.

*Charles W. Baird is a professor of economics at California State University, Hayward, California. This article was written in association with the Foundation for Research on Economics and the Environment, Seattle, Washington.*

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And sin is what they have in mind. For many environmentalists, pantheism has replaced belief in a transcendent God who grants human beings dominion over the earth and all its creatures. This new (actually it has ancient roots) "earth womb" religion comes complete with its own creed.

One of its most important doctrines is the recycling of municipal solid waste. Landfill sites, the litany goes, are scarce, and, in any case, they are hazardous. Incineration, the litany continues, is unthinkable because of the resulting air pollution and the dangerous content of much of the resulting ash. There are, the litany goes on, only two legitimate acts of contrition—recycling and less consumption. The litany ends with "Go in peace, and abstain from plastics. Thanks be to Mother Earth."

## Landfilling

There is no shortage of geologically safe, potential landfill sites in the United States. Japan, a land-poor country, has 2,400 operational sites. In the land-rich U.S., there are only 4,800. While it is true that one-half of existing landfills are due to close in five years, that is always the case—landfills are designed to stay open, on average, only 10 years.

State-of-the-art landfill technology makes it possible for all new sites to be environmentally safe and people-friendly. There are vast, empty regions in the West and Southwest that aren't used by anyone for any purpose that could be developed into environmentally safe landfills. Only politics and pantheism stand in the way of common sense.

Private landfill owners have strong economic incentives to use liners, install leachate and methane gas collection systems, and include groundwater monitoring systems. It is only on government-owned landfills that scant attention is paid to such amenities. The reason is simple—private owners are liable for the damages they create, and government operators are not.

Similarly, it is in the interests of private owners to charge fees that reflect the full costs of collection and disposal, which include landfill closure and post-closure maintenance costs. Such fees will be different for different kinds of waste. Individuals and businesses can make rational choices about the composition and quantities of what they dump only if disposal fees embody the true costs of that activity. Municipal disposal fees, politically set, are usually uniform for all kinds of waste, and they typically cover only current operating expenses. This encourages over-dumping and lack of attention to the composition of the waste.

Moreover, closed landfills don't have to be dead land. Housing developments, golf courses, and conference centers are only three types of already successful post-closure landfill uses.

The way to overcome the alleged shortage of landfill sites is to get politics out of the way. All existing landfills should be privatized, and government should get out of the landfill business.

The proper role of government in this matter is judicial. If courts held private landfill operators strictly liable for the real harms they impose on others, the operators would internalize those costs and make appropriate decisions thereon. To overcome the not-in-my-back-yard (NIMBY) attitude of most people toward landfill siting, operators would have to offer compensation to people whose property would be in close proximity to landfills. Thus residential and commercial sites that have already been developed would be avoided.

## Incineration

State-of-the-art incineration technology makes it possible for new combustor sites to be constructed and operated that would be environmentally safe and people-friendly. According to the U.S. Conference of Mayors, "The technology exists to carry out, monitor, and control the processes of incineration of municipal solid waste (inclusive of ash residue management) in such a way as to completely ensure that potentially harmful constituents are not expected to pose risks to humans and/or the environment which would normally be of regulatory concern."[4]

We incinerate only 14 percent of our municipal solid waste, and the Environmental Protection Agency (EPA) has set a target of 20 percent for 1992. In contrast, Japan safely incinerates over 60 percent of its waste.[5] Air pollution from incineration is no longer a problem. Even much of the resulting ash can be put to good use—in secondary road construction, for example. The rest can be safely landfilled. If we incinerated at the same rate as the Japanese, we would cut our need for landfill space by almost half. Only the irrational opposition of environmental zealots and the NIMBY phenomenon prevent us from siting, constructing,

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and operating sufficient new incinerator facilities. Just as with landfill siting, NIMBY can be overcome with offers of compensation. Prudent choice of incinerator sites would minimize the compensation bill.

Furthermore, the energy released through incineration can be converted to electricity. Waste-to-energy incineration would reduce our consumption of nonrenewable fossil fuels in electricity generation. About 40 percent of landfill waste is paper and paper products. Paper is a renewable resource. If we incinerated the paper we now send to landfills we would ameliorate two problems with one stroke.

The state of Maine has moved toward prohibiting private ownership of new incinerators, but rational public policy dictates just the opposite. If private owners are held liable for the damages they cause, and if government sets standards while monitoring private operators for compliance, we will have safe and effective incineration. If government agencies operate incinerators, less care will be taken. The reason, again, is simple—private owners have their own wealth at stake, government operators do not.

## Recycling

Recycling is not what it is cracked up to be. While it makes economic sense to recycle some things, especially aluminum and ferrous metals, recycling other things, such as most paper, does not. There are already more stored old newspapers waiting to be recycled than the demand for recycled paper can absorb. Much recycled paper is too poor in quality to be used effectively in printing. The bleaches used to de-ink paper during recycling are toxic and present their own environmental problems.[6] Moreover, most paper comes from trees specifically planted for that purpose. If the demand for new paper is reduced by forced recycling, fewer such trees will be planted. Recycling of paper can be anti-green.

The irrational attachment of EPA bureaucrats to recycling was illustrated by their proposal last December that all municipal waste incinerators be required to recycle 25 percent of the trash they received for burning, notwithstanding any considerations of the cost and benefits of doing so. Fortunately the Vice President's Competitiveness Council quashed that regulation before it took effect.

The best way to get people to be careful about what they discard is to charge them by-the-can or by-weight garbage collection fees based on the composition of what is discarded. The city of Seattle has set a target of recycling 60 percent of its trash by 1998. Its current recycling rate is 37 percent, the highest in the nation.[7] Seattle's "pay as you throw" system imposes differential disposal fees for various kinds of waste based upon their disposal costs. Seattle adopted its program as an alternative to the construction of a large incinerator facility. Although its municipal solid waste disposal problem has been ameliorated by this sensible pricing policy, recycling alone will not suffice. The 60 percent target is unattainable without large subsidies. Sooner or later the citizens of Seattle will have to reconsider the incineration alternative.

Thirty-nine percent of American cities don't charge for garbage collection. Of those that do charge, half impose flat fees that are unrelated to the amount and kind of garbage collected. Thus about two-thirds of American cities provide no direct incentive for households to consider the costs of their garbage disposal decisions.[8] If recycling must be done, the implementation of differential fees based on the separation or non-separation of recyclables and the characteristics of what is discarded is the best way to accomplish the task. Direct command regulations enforced by garbage police and neighborhood monitors should be anathema to Americans. Worse yet is the real danger that school children will be encouraged by their environmentally conscious teachers to become garbage police deputies at home as they try to instruct their parents in environmentally correct thinking and acting.

## Plastics

"Plastics" is not a four-letter word. McDonald's recent capitulation to the environmental establishment on the use of polystyrene foam containers was an act of infamy. It is testimony to the power of the environmental priesthood that McDonald's felt it had to take this public-relations step to defend its goodwill capital. Ironically, McDonald's switched from paper to plastic in the 1970s at the behest of environmentalists who were then concerned about excessive harvesting of trees.

Styrofoam is clearly superior to paper in hot

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food and drink containers. Moreover, plastics are just as recyclable as paper. Almost 200 companies are in the business of recycling plastic food containers, milk containers, bottles, knives, and forks into such products as carpet backing, paint brushes, scouring pads, appliance handles, floor tiles, automotive parts, and fiberfill for pillows, sleeping bags, and ski jackets. High density polyethylene plastic is recycled into such things as traffic cones, trash cans, and plastic lumber.

Plastic takes up less landfill space per comparable item than does paper and, unlike paper, plastic will not decompose and produce leachate that could find its way into groundwater. Polystyrene foam makes up only one-quarter of 1 percent of landfilled waste, and all plastics make up only 8 percent. Paper, in contrast, constitutes 40 percent.[9] Moreover, plastics, just like paper, can be safely incinerated. There are simply no grounds for the widespread plastiphobia that the environmental zealots have created.

## The Aseptic Package

Many environmentalists seem to fear and loathe any kind of technological innovation irrespective of its environmental impact. The aseptic package is an excellent case in point.[10]

An aseptic drink box, for example, can store fruit juices for extended periods without refrigeration or chemical preservatives. These boxes, in single-serving sizes, are sold in most supermarkets across the country. They have become popular with consumers who wish to include such beverages with packed lunches at school or work. They are unbreakable, light in weight, use less material than any other packaging alternatives including those that require refrigeration and chemical preservatives, are energy efficient in production, and have the lowest environmental impact of any alternative single-serve package on the market.

Notwithstanding the fact that in 1989 the Institute of Food Technologists voted aseptic packaging to be "the outstanding food processing technology of the last 50 years," the state of Maine, in that same year, at the behest of environmentalists as well as producers of alternative packaging, banned it. The ostensible reason was that since aseptic packaging takes more packages to hold the same volume of product as a larger package of a different type, aseptic packaging increases the amount of discarded waste.

But this is a non sequitur. For any volume of product, the total amount of packaging material required by aseptic packaging is less than that used by any alternative. It takes more separate boxes, but all those boxes together require less material than one larger package of a different type that could hold the same volume of product. Maine's action cannot be defended on rational grounds. It was decision-making on the basis of misinformation, superstition, and ignorance.

We should forsake the environmental priesthood and adopt an integrated approach to municipal solid waste management. Such an approach would include sensible landfilling and incineration along with recycling and prudent packaging decisions, all based on cost-benefit comparisons. If we adopt that strategy, the "garbage crisis" of the 1990s will be seen to be as chimerical as the "energy crisis" of the 1970s, and for the same reason. Both were caused by faulty government policy. The cure is simple: discard counterproductive government interventions, privatize, get the prices right, and allow individuals, guided by those prices, to make their own choices. □

1. Warren Brookes, *Revenge of the Killer Watermelon: California's Big Green Initiative* (San Francisco: Pacific Research Institute, July 26, 1990), p. 5.

2. Bruce N. Ames, oral discussion of "Misconceptions About Environmental Pollution and Cancer," paper presented at the General Meeting of The Mont Pelerin Society, Munich, Germany, September 3, 1990.

3. Robert James Bidinotto, "Environmentalism: Freedom's Foe for the '90s," *The Freeman*, November 1990, pp. 409-420.

4. *Incineration of Municipal Solid Waste: Scientific and Technical Evaluation of the State-of-the-Art* (Washington, D.C.: U.S. Conference of Mayors, February 1, 1990), p. 8.

5. Kenneth Chilton, *Talking Trash: Municipal Solid Waste Management* (St. Louis: Center for the Study of American Business, Washington University, September 1990), pp. 9-12.

6. Lynn Scarlett, "Integrated Waste Management: A Primer on Solid Waste Problems and Policy Options," paper presented at Integrated Waste Management Systems: A Seminar for Academics, sponsored by the Foundation for Research on Economics and the Environment, Seattle, Washington, November 2-4, 1990, p. 13.

7. Chilton, *op. cit.*, p. 12.

8. Scarlett, *op. cit.*, p. 5.

9. *Characterization of Municipal Solid Waste in the United States: 1990 Update* (Washington, D.C.: Environmental Protection Agency, June 1990), p. 10.

10. This section is based on Harry Teasley, Jr., President and CEO of Coca-Cola Foods, "Presentation on Aseptic Package to Maine Waste Management Agency," October 9, 1990.

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# The Samaritan's Dilemma and the Welfare State

by E. C. Pasour, Jr.

The parable of the Good Samaritan in the biblical story is well known. In traveling from Jerusalem to Jericho, the Samaritan came across and assisted a man who had been robbed and beaten by thieves and "left half dead." Under the circumstances of this event, the Samaritan is properly lauded for his exemplary conduct. However, as Nobel Laureate economist James Buchanan demonstrates, a dilemma frequently arises when a modern-day Samaritan's actions are generalized as a rule of conduct for individuals attempting to assist people in need.[1] What should a Samaritan do, for example, if the assistance rendered serves to increase the need for further help?

Most people have personally experienced the Samaritan's dilemma when confronted with winos and other street people "in need." On the one hand, there is a desire to help the less fortunate, some of whom cannot help themselves. On the other hand, there is the recognition that a handout may be harmful to the long-run interests of the recipient. It is shown below why this dilemma is likely to be resolved in a way that is socially more damaging when assistance is provided from the public till. Relatively little attention has been given to the inherent problems of the political process in effectively coping with this pervasive problem.

## The Samaritan's Dilemma and Personal Choice

In a broad sense, a Samaritan can be viewed as anyone trying to help people in need. No dilemma arises for the Samaritan as long as the condition of being in need is beyond the victim's control. However, a recipient through foresight and effort generally can influence the likelihood of the ensuing condition that evokes offers of aid. Therefore, a dilemma arises for the Samaritan who attempts to do good, as suggested above, if the donor's action leads to an increase in the amount of need.[2] Moreover, this dilemma arises in personal choice situations in many different contexts when we as individuals try to extend assistance to other people.

The Samaritan's dilemma commonly is encountered in the home. Consider the discipline and rearing of children. Who can deny that the parent who succumbs to pressure from a pleading child to make a purchase while shopping has increased the likelihood that the child will exhibit similar behavior in the future? What should the benevolent parent do in such situations where short-run assistance is likely to create long-run problems? Similarly, should an individual permit a neighbor readily to borrow groceries or tools if this is likely to encourage the neighbor to be in chronic need of assistance?

In the academic area, Buchanan cites the example of the teacher returning exams. Increasing the grade of a single complaining student, one form of giving aid, is the easy thing to do in the short run. However, helping that student makes for long-run problems by increasing the number of student complaints.

The Samaritan's dilemma is inherent in private charity too. A dilemma arises generally because there is a positive relationship between the amount of work a person will do and the financial

*Dr. Pasour is a professor of economics at North Carolina State University at Raleigh.*

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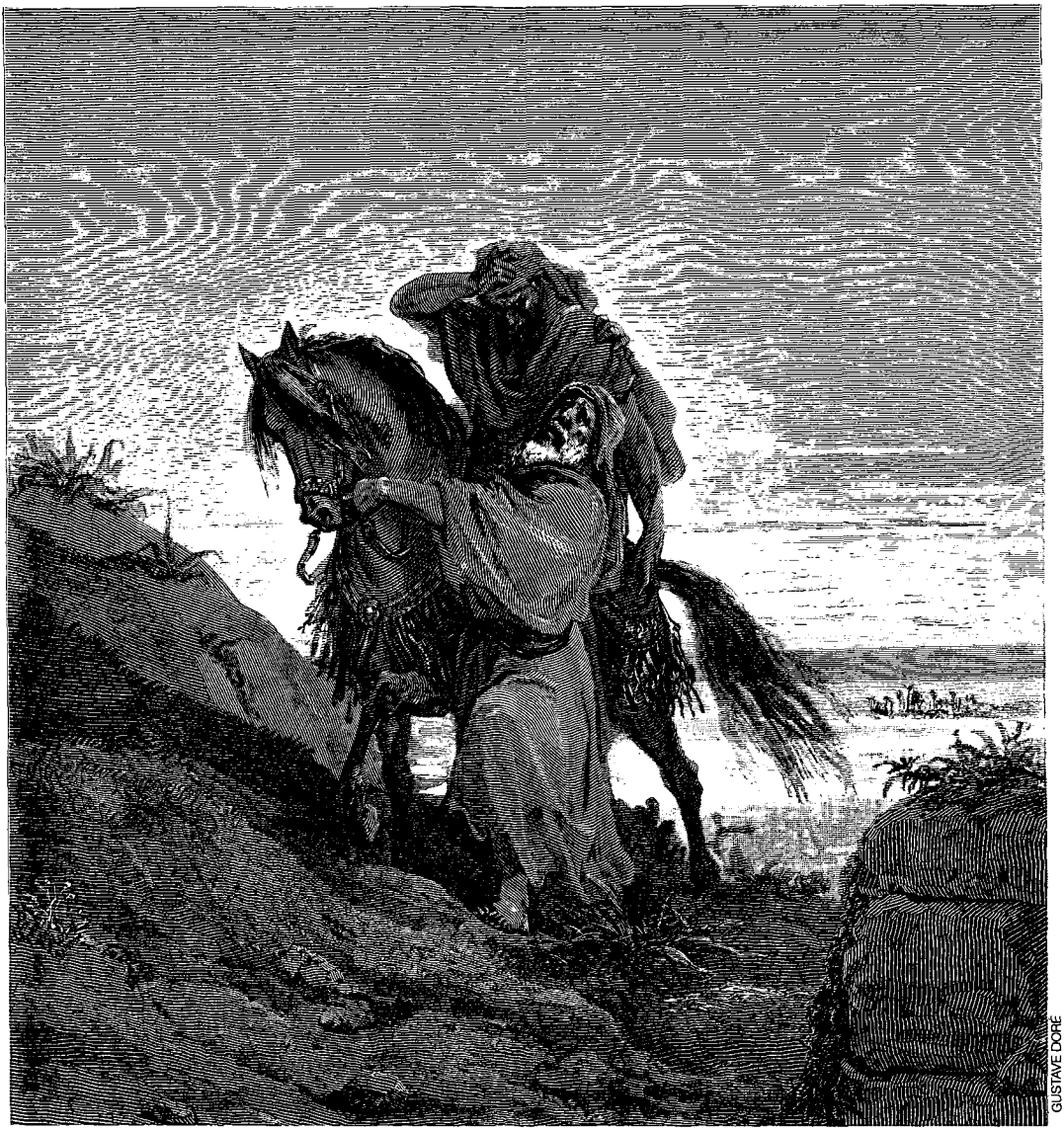


***While the biblical Good Samaritan is properly lauded for his exemplary conduct, a dilemma frequently arises when a modern-day Samaritan's actions are generalized as a rule of conduct.***

rewards received from work. Stated differently, there is a trade-off for the aid recipient between work (or income) and leisure.

Consider what happens when a Samaritan tries to assist someone less fortunate, with the more help extended the lower the income of the one in need. If the recipient realizes that the amount of assistance varies inversely with the amount of income earned, he has an incentive to reduce work and income earned. In this situation, the granting of financial aid exacerbates the condition that brings forth the assistance. The only way to avoid the socially undesirable outcome of reduced work by the needy is to withhold the aid. Hence, the Samaritan's dilemma.

In short, the Samaritan's dilemma for us as individuals in this and other situations arises whenever the extension of aid increases the number of situations requiring aid. Thus, the Samaritan's dilemma is a pervasive problem as people respond individually to those in "need."

Although this dilemma cannot be avoided, we as individuals have an incentive to take a long-run rather than a short-run perspective in dealing with these situations. In the case of private charity where the aid comes from the Samaritan's pocket,

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the individual donor has an incentive to monitor the effect of the aid on the recipient's conduct to prevent the recipient from taking advantage of the donor's benevolence. For example, few people today give unsupervised handouts to "street people."

## The Samaritan's Dilemma and the Public Till

It is much more difficult to cope with the Samaritan's dilemma when low-income problems are addressed through the political process. Moreover, this dilemma is endemic in government programs to assist the poor. Henry Hazlitt, for example, describes two lessons that can be drawn from the effects of the dole in ancient Rome: "The first . . . is that once the dole or similar relief programs are introduced, they seem almost inevitably . . . to get out of hand. The second lesson is that once this happens, the poor become more numerous and worse off than they were before, not only because they have lost self-reliance, but because the sources of wealth and production on which they depended for either doles or jobs are diminished or destroyed."[3]

In short, in collectively assisting those less fortunate through the government dole, the number of the poor increased because work incentives were adversely affected.

The Samaritan's dilemma is no less important in government welfare programs today. Consider the food stamp program. The willingness of the state (the Samaritan) to offer food stamps will increase the perceived need for food aid. Moreover, the social problem created by state aid is made worse in this situation because both the recipient and the donor—including those enacting the legislation as well as those administering the program—have an incentive to overstate the need.

First, consider how a state-financed welfare program weakens the incentives by the donor (the state) to deal with the Samaritan's dilemma. A government program inevitably creates a political constituency that benefits from expansion of the program. The food stamp program, for example, provides an important source of political support to Congressmen having large constituencies of low-income people. Moreover, a bureaucrat's salary, perquisites, and patronage tend to increase as the bureau's budget increases. Therefore, government officials administering the food stamp program have a vested interest in expanding the scope of the program. Thus, it isn't surprising that the U.S. government has sponsored mass mailings and door-to-door recruiting campaigns to increase the number of people who will accept food stamps.[4] In reality, the Samaritan's dilemma for taxpayers funding government transfers is of relatively little concern to those administering welfare programs.

Second, recipients of food stamps (and other welfare programs having a means test) have an incentive to under-report income. Moreover, information problems associated with administering a means test are formidable in the case of low-income workers having income that isn't reported for tax purposes. Thus, it is not surprising that implementation problems constantly plague the food stamp and other government transfer programs.

The problem the Samaritan faces in providing assistance is known in the insurance field as moral hazard. A moral hazard problem arises whenever an individual's behavior is affected because he is protected from the consequences of his actions. Thus, moral hazard means that insurance makes it more likely that the event insured against will happen and that a loss will be incurred. The Samaritan's dilemma is a moral hazard problem. The fact that the Samaritan offers aid will almost certainly affect the recipient's behavior and increase the "need" for aid.

In subsidized credit programs in agriculture, for example, easy credit is extended to farmers who "need a lower interest rate." Government officials here too have an incentive to find needy borrowers, and borrowers have an incentive to overstate their need to obtain the easy credit. Thus, government-run or -supervised credit agencies substitute political judgment for the discipline of the market. Cheap credit extended by the Farm Credit System and the Farmers Home Administration during the inflationary period of the late 1970s was partly responsible for the dramatic increase in farm bankruptcies and financial stress of agriculture during the mid-1980s.

A similar problem exists in government assistance to promote economic development in less-developed countries. Economist P. T. Bauer has shown that government programs to promote economic development instead are likely to retard the

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political and economic changes necessary to promote economic growth.[5]

Economic assistance to the Soviet Union is an excellent current example of the Samaritan's dilemma in government aid programs. In late 1990, the news was rife with reports about food shortages and impending famine in the U.S.S.R. In response, the Bush Administration announced that the United States would extend some $1 billion of economic aid in the form of guaranteed commercial credits for Soviet purchases of U.S. grains, poultry, pork, and other farm products. However, many economic and political analysts, including proponents of economic freedom within the Soviet Union, argued that such aid is a temporary palliative that in the absence of meaningful political and economic reforms is likely to impede rather than promote economic growth.

## Will It Hurt or Help?

The Good Samaritan's conduct in the biblical parable is worthy of emulation because the situation encountered presumably was beyond the victim's control. However, in many contemporary situations, the aspiring Samaritan is confronted with a dilemma in dealing with people in need. There frequently is a down side to a Good Samaritan's actions—and not just because the ostensible victim may, as sometimes occurs today, turn the tables and rob and beat the Samaritan!

In determining whether aid of any given type is socially beneficial, we must consider whether it is likely to significantly increase the number and worsen the condition of victims needing aid. The donor is faced with a dilemma whenever the granting of assistance promotes the conditions that evoke such aid.

In private charity, for example, the dilemma for the benefactor is present as long as the recipient's work effort falls as income rises. If aid increases as the recipient earns less income, he has an incentive to reduce earnings to obtain larger gifts. The donor faces a chronic dilemma in attempting to abolish poverty because it is likely that some hunger and homelessness must be allowed for to avoid unduly promoting the conditions that elicit aid.

However, the individual donor who bears the cost of his own benevolence has an incentive to prevent those in need from taking advantage of his willingness to help. Moreover, in the world of private charity, there is no particular individual or agency who bears final responsibility for letting someone go hungry if he refuses to work in the hope of getting a larger donation. This strengthens the attitude of individual responsibility and the credibility of insisting on self-help as a requirement for aid.[6]

The Samaritan's dilemma poses a more formidable social problem in the welfare state. Democratic governments are much less likely than private individuals to deal effectively with the dilemma when the government acts as a "safety net" or "charity of last resort." In this case, individuals whose earnings are just above the government's safety net have a strong incentive to quit working and take advantage of transfer programs. And, as shown above, there is a short-run bias on the part of those who legislate and administer welfare programs. When contrasted with private donors, government employees have an incentive to be less concerned with the long-run effects of aid on a recipient's behavior.

There is no way to avoid the Samaritan's dilemma in coping with people in need—whether the issue is homelessness, medical care, subsidized credit, or foreign aid. An offer of aid generally will bring about some worsening of the conditions that evoked the initial offer of assistance. However, the above analysis suggests that publicly funded aid is less effective than private charity in coping with this dilemma for two reasons. First, when compared with private donors, the welfare bureaucracy is likely to be less concerned about the societal dilemma inherent in assisting needy people because government employees benefit personally as the magnitude of the aid increases. Second, no one spends other people's money as carefully as he spends his own. □

1. James M. Buchanan, "The Samaritan's Dilemma," in Edmund Phelps, ed., *Altruism, Morality, and Economic Theory* (New York: Russell Sage, 1975), pp. 71-85.

2. A number of the examples used are taken from Richard E. Wagner, *To Promote the General Welfare: Market Processes vs. Political Transfers* (San Francisco: Pacific Research Institute for Public Policy, 1989).

3. Henry Hazlitt, "Poor Relief in Ancient Rome," *The Freeman*, April 1971, p. 219.

4. James Bovard, "Feeding Everybody: How Federal Food Programs Grew and Grew," *Policy Review*, Fall 1983, pp. 42-51.

5. P. T. Bauer, *Dissent on Development*, revised edition (Cambridge, Mass.: Harvard University Press, 1976).

6. Wagner, *op. cit.*, p. 173.

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# The Shame of the Church

by Norman S. Ream

In 1948 the World Council of Churches held its first assembly in Amsterdam, Holland. In Section III of its concluding report it issued a searing indictment of both Communism and capitalism in which the United States delegates heartily joined. Shortly thereafter, writing in *The Christian Century*, the Reverend John C. Bennett, a prominent American Protestant and a seminary professor, seeking to defend the Council's report, laid out four major indictments of capitalism:

1. Capitalism tends to subordinate what should be the primary task of any economy—the meeting of human needs—to the economic advantages of those who have most power over its institutions.

2. Capitalism tends to produce serious inequalities.

3. Capitalism has developed a practical form of materialism in Western nations in spite of their Christian background, for it has placed the greatest emphasis upon success in making money.

4. Capitalism keeps people subject to a kind of fate which has taken the form of such social catastrophes as mass unemployment.

These same charges have been laid at the feet of capitalism by prominent church leaders of nearly every major denomination for the past 70 years. I can remember in the 1930s hearing a prominent Methodist bishop, just returned from a guided tour of the Soviet Union, extolling the virtues of Communism over those of capitalism. In my seminary days near Chicago, the then-conservative *Chicago Tribune* was consistently ridiculed and scorned by my professors for its defense of the limited government, private property, free market way of economic life.

Later on when I became a member of the social action committee of my denomination's state body, and it was proposed to endorse the United Nations Declaration of Human Rights that Eleanor Roosevelt had enthusiastically endorsed, I asked the other members of the committee how many had actually read the document. Not to my surprise, nary a one had done so. In their misguided idealism, they were supporting it because it sounded so good and were completely unaware of the traditional rights and privileges it would deny citizens of the capitalist United States.

Over and over again church leaders and church assemblies have passed resolutions that, in substance if not overtly, praised socialism and condemned capitalism. As a consequence, the Christian church and its leadership has made a large contribution to the denial of a higher standard of living and a larger measure of freedom to millions of men and women around the world.

## No Perfect Society

Let us not hesitate to admit that capitalism has its faults. Those faults, however, are due primarily to the fact that human beings are human and capitalism gives these fallible human beings the largest measure of freedom in which to exercise their fallibility. As the church itself says, "All men and women are sinners." Or as the Bible puts it, "There is none good but one, that is God." (Matthew 19:17) Those same fallible men and women exist in every society and will exist under any and every economic system. That they continue to exist and don't decrease in numbers is cer-

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tainly due to a failure on the part of religion more than to a failure of the economic system.

There is no such thing as a perfect society, and there never will be. This has been acknowledged by the Christian church since its very beginning. Men and women, being sinners, frequently do what they ought not do and fail to do what they ought. Human beings are also partially ignorant, and thus make errors of judgment. The propensity to sin and the lack of perfection in knowledge and wisdom lead to an imperfect society. The most mankind can hope for is a society that is successful in providing the greatest good for the greatest number.

Without the slightest question, history and the millions of men and women who have lived behind the Iron Curtain of socialism and Communism (the ultimate form of socialism) now testify to the indisputable fact that capitalism is far superior to socialism in providing the necessities of life to the masses, and in doing so without denying them their individual freedom.

But ever since the Russian Revolution of 1917, church leaders have tried to convince church members that socialism meets the moral and ethical demands of Christianity better than does capitalism. They have done so by constantly comparing socialism as they believe it could be with capitalism as it is. In his recent excellent book, *Capitalism*, Arthur Seldon vividly points out that long ago we should have been comparing capitalism as it could be with socialism as it has actually operated in those parts of the world where it was enthusiastically adopted and is now being equally enthusiastically rejected.

The clergy who have praised and advocated socialism through the years have done so, for the most part, without any real knowledge or understanding of economics and political science. They have been well-intentioned and misguided idealists who have looked at the end desired and failed to examine the means and calculate the costs. They didn't heed their Master's admonition in His parable of the builder. (Luke 14:28ff) The clergy have been guilty of what F. A. Hayek calls "the fatal conceit." They were certain they knew what was good for society and for each member of it, and when one is in that position it is difficult not to seek to impose one's ideas and theories on all.

As already pointed out, the great weakness in the pro-socialist clergy's argument has been the comparison of socialism as an idealistic theory with capitalism as an operating economic system. It would be far more appropriate to compare socialism as it has operated in the Soviet Union with capitalism as it has operated in the United States. That, of course, would immediately and obviously lose the argument for socialism. Socialism only "works" in theory and can work in no other way for it never takes into account human nature. It takes no notice of men and women's burning desire for freedom, their inborn competitive nature, their desire to get ahead, to prosper and succeed, which the church itself has praised in urging them to use their talents and abilities to the full.

For seven decades many, if not most, leaders of the major Christian denominations have advocated a system that is now seen by the entire world as an economic and political disaster. It has robbed millions of their freedom. It has denied them a higher standard of living that could have been theirs. This is the shame of the Christian Church. Joseph Schumpeter wrote in *Capitalism, Socialism and Democracy* that ". . . the impressive economic and the still more impressive cultural achievements of the capitalist order . . . could lift poverty from the shoulders of mankind." Church leaders however preferred blind faith in an abstract idea over recognition of the positive benefits of capitalism.

## Answering Capitalism's Critics

Let us now return to the indictment of the World Council of Churches and the criticisms of Professor Bennett, which are prototypical of all those made since.

The first charge is that capitalism does not devote itself to the primary responsibility of any economic system, which is the meeting of human needs. If economics is a science requiring a subtlety of understanding, then it is obvious that anyone making such a charge doesn't understand capitalism.

When I was a freshman in college, I came across Edward Bellamy's paean to socialism, *Looking Backward*. I recall urging my father, a small businessman of that day, to read the work, and gave it my own fulsome praise. My wise and experienced father responded by saying something like, "You can say things in books you can't put into practice

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in the real world." Many clergymen, however, have had little or no experience in the real world and, like politicians, look only at promised results, ignoring the tremendous costs of implementation.

Men and women will differ in their definitions of needs and luxuries, but no intelligent entrepreneur would go into business without being reasonably certain that he was responding to a felt need for his product. Thousands of businesses fail every year precisely because the owners miscalculated and discovered too late an absence of need.

Ask those who have lived in the Eastern dictatorships if the socialist economies met their needs. It is primarily because there are no free markets in those countries, and no private property, that socialism does not and cannot meet human needs in the same abundant fashion as can a free economy. Again it is a case of left-leaning church leaders looking at socialist promises and ignoring capitalist results.

The second indictment has been that capitalism tends to produce serious inequalities in society. There are indeed inequalities in any society. The primary blame, however, needs to be laid at the feet of God. The framers of the Declaration of Independence notwithstanding, there is no sense in which all men and women are created equal. If, as Christianity demands, we use all our talents and abilities to the full, we will become less and less equal. God has greatly blessed some, while others seem terribly deprived.

Egalitarianism plays well on the lips of politicians and the clergy, but in real life its goals are seldom if ever achieved. The *Mayflower* Pilgrims tried it and gave it up as unproductive. Wrote William Bradford of the experience, "For this community . . . was found to breed much confusion and discontent and retard much employment that would have been to their benefit and comfort." It destroyed the will of the ambitious, and encouraged the lazy and indifferent to continue being so. Socialism equalizes by bringing everyone down to the lowest common denominator (except the ruling class), while capitalism equalizes by tending to raise the living standards of all.

There may indeed be a sense in which capitalism promotes a form of materialism by making available to consumers so much more than socialism ever can. Nevertheless there is a kind of "materialism of misery" that grips those who have very little available to them and who must wait in long lines in order, they hope, to get that little. The "materialism of plenty" would be preferred by the vast majority of people in every country. But rather than being the result of capitalism, one could with equal verity claim that it was the result of politicians undertaking to convince the voters they deserved all of these "things" by right and promising to provide them in return for their votes. The church and the clergy also deserve part of the blame for their failure to effectively teach their people how to assess values.

The final charge is that capitalism subjects citizens to such social catastrophes as mass unemployment. That is the only "social catastrophe" mentioned, and one has difficulty thinking of any others that could be laid at the feet of capitalism.

Let us recall that there was no mass unemployment in Nazi Germany. There is, allegedly, no unemployment in the Soviet Union. But again one must count the cost: no personal liberty, no free markets, constant scarcities of consumer goods. The Soviet Union can make these claims, but it is the only industrial power in the world whose living standards are declining, the only such country where the life expectancy has been falling and infant mortality rates are rising. So much for the benefits of "full employment" under socialism.

Put against the criticisms of church and clergy is one irrefutable consideration: capitalism has produced more to meet human needs and aspirations than any other system known to mankind, and it has done so largely without depriving individuals of their personal freedom. One must insert the word "largely" because even in this country much of the progress made by capitalism has been in spite of the interference of politicians, which results in a loss of freedom. Capitalism has proven itself in practice. Socialism has failed wherever it has been tried.

Capitalism is the morally and ethically superior system, and as such should have been supported, not condemned, by church and clergy. Had the church and clergy supported capitalism, millions of men and women around the world might well have known a larger liberty and a greater happiness. Even today, however, church leaders follow the lead of politicians and power-seekers, and while millions of people around the world reject socialism, they continue to embrace it. □

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# Vive la Différence

by Ridgway K. Foley, Jr.

Comparisons—purported or real—are dangerous. Superficial arguments can seem so plausible. Since human beings dislike strain and contention, we tend to accept the shallow or one-dimensional assertion without question.

A common example, which appears in many manifestations, is the unflattering comparison of public expenditures by the United States and other nations for various social welfare programs. How often have we heard that "the United States ranks very low among civilized nations in per capita expenditures for education," or "virtually all Western countries provide greater public support for the (arts, humanities, old people, young people, sad people, bad people) than we do"? Proponents of "social" causes decry this purported governmental and cultural absence of support for their favorite venture as a sign of a failing civilization, as if endless state funds should be committed without question or cavil to child care, elder care, alcohol rehabilitation, sex education, and myriad other proposals and programs limited solely by the fantasies of the activist mind.

The zealot commonly overlooks flaws that threaten his preconceived notions. Serious flaws in addition to those of calculation and conception erode this ineluctable parade of plans for spending "public monies." These deficiencies arise in no small part from the inaccuracy of the underlying assumption that the United States is an abject failure because it theoretically throws less tax money at any or all such social programs. Let us examine two of the more malignant defects: the inaccurate calculus, and the essential denial of conceptual history and principle.

One may dispatch the erroneous calculation quickly and certainly. A plethora of distinguishing computational features and factors differentiate the United States from other nations with which it is unfavorably compared. For example, no one can verify the comparative figures from other countries: How can one equate open and closed societies? And, even in the United States, dishonest political accounting obscures and misleads the student of political economy seeking to discern just how much is spent on a particular function. Further, each nation differs in monetary unit, data base, system content, linguistic labels, political structure, and a whole host of other variables which result in a comparison of incomparables. Thus to say, for example, that Russia, France, or Chile spends more on education than the United States says nothing important at all. The argument satisfies only the utterer because it is meaningless without close examination and verification of many features to assure that the statement compares comparables.

However, the error of the conceptual premise overwhelms this obvious inaccuracy of the calculation. Assume, for the sake of argument, that some or several nations we generally respect spend more tax money on some or all common "social programs." Assume further that men of good will would generally acknowledge that the end sought is laudable: after all, who among us would dispute that education of the young, medical care for mothers, and rest for the aged constitute fine objects in the abstract? Even the positing of these suppositions will not sustain the argument that the United States is remiss in some duty to its citizenry, and that such an omission may be cured solely by a massive assessment, collection, and application of more taxes to these praised projects. A faulty premise always implicates and erodes a conclusion; in this case, the proponents of more governmental activity have overlooked, misread,

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or ignored the foundations of our country.

The 200th anniversary of our Bill of Rights ought to remind us of our beginnings. Our forefathers left their "Old World" and hewed a new nation out of the forbidding wilderness of this "New World." The adjectives "old" and "new" referred not primarily to location. Rather, they connoted and commended a sharp break with the omnipresent past; a past of hunger, disease, incivility, and slavery; a past which those wise and honorable men and women wished to leave behind—in the Old World.

In the Old World, individuals counted for little or nothing; they existed as the king's pawns or nature's playthings. As Thomas Hobbes decried, human life was "solitary, poor, nasty, brutish, and short." Men toiled for a lifetime in the dank and the dark, without hope or help. The feudal monarchs and barons plundered as they wished; it scarcely mattered to the serf or yeoman if his meager possessions were taken by force of arms or by force of law.

Presaging the Instrumentalist revolution in law and education of the late 19th century, the privileged and powerful of the Old World could say with virtual impunity, "The law is what I say it is, and nothing more pretentious." Thus, in the Old World, the state reigned supreme and the individual merely sojourned to serve its greater purposes; the state determined what should be created, how it should be produced, and who should receive the resultant distribution; the state decreed who could engage in each and every task and for what return or recompense; the state declared the existence and content of any and all "social programs"; the state decided who might live and who should die.

## New World, New Vision

By contrast, the New World offered a new and singular vision. The original beauty of our nation lay in its creed of expansive freedom of individual action and strict limitation of state control. Men were at liberty to live their lives, take their risks, and reap their rewards as they saw fit without government direction or interference. So long as men didn't plunder or cheat their neighbors, the state kept its nose out of their lives and businesses. Our ancestors specifically sought to escape the squalid model of the Old World with its caste system, festering poverty, and pervasive malaise. They achieved this goal by a new vision of individual rights fit for the New World and protected by a special structure of limitations upon the state by means of a Constitution that spelled out personal rights safeguarded from collective trammel.

For years, the United States retained and followed this novel vision. In so doing, within a single lifetime, our citizens—all immigrants from the faltering and oppressive Old World—came to enjoy the highest standard of living (including, not incidentally, health care, educational progress, artistic stimulation, and a whole host of other values which form the essence of civilization) that the world, old or new, had ever known. What perceptive philosophers had long surmised became proven in fact: unfettered free men and women will produce the best, most civil, most advanced, most honorable society possible.

Men without chains eliminated drudgery, advanced science, improved life, and engendered happiness for all segments of society. Amazingly, the "poor" benefited relatively more substantially than the wealthy in the United States, a stark contrast to the Old World of privilege and patronage. And, all the while, those truly important "social action" projects were fulfilled in a manner much superior to that prevailing in myopic Old World fiefdoms.

Free men recognize what is essential and proceed to accomplish such necessary tasks, unbound by archaic regulations and stifling bureaucratic murk. Slaves see no farther than the end of the master's nose. After all, it doesn't pay for a servant or a serf to venture into the unusual or unknown.

This century, however, has borne witness to a remarkable turnabout in attitude, integrity, productivity, and civility. This retrenchment seeks to take root in an inordinate idealization of a foreign model, the Old World way of doing things. Gradually we are encouraged to ape Old World social and legal systems, venerating them for their supposed wisdom and humanity, and adopting them for our own. In so doing, we not only depart from the core of our greatness but also take on the trappings of a failing and failed civilization, a social system erected on force, malevolence, mediocrity, and mandate. Our forebears left those Old World evils for good reason; we would do well to emulate our ancestors, not the heritage they discarded. □

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# The Do-It-Yourself Queen

by Vincent Curcio

In a corner of her living room at The Sherry-Netherland hotel in New York City, a glass case displays a portrait doll of Lucille Lortel, clothed in a billowing black skirt and simple white satin blouse ruffled at the neck. Generous folds of rich auburn hair frame a sympathetic face, whose most striking feature is the huge, liquid dark eyes, the sort that would disconcert if they did not instantly disarm. Adorning her head is a golden crown, its peaks surrounding a puff of royal purple velvet. Nearby, on a yellow damask Louis XVI settee, rests a small petit-point pillow. An old friend has patiently embroidered Gothic letters on the pillow, proclaiming the legend: "It's Not Easy Being a Queen."

In 1962 Lucille Lortel received the first Margo Jones Award for encouraging new American playwrights. On that occasion Richard Coe, drama critic of *The Washington Post*, dubbed her "The Queen of Off-Broadway," an entirely appropriate appellation that has stuck to this day, making her instantly recognizable in theatrical circles throughout the world. For she, along with Joseph Papp and Ted Mann, consolidated off-Broadway, which was not just a location, but a name for the art theater movement consciously developed as an alternative to the Broadway commercial theater.

Though no one would ever speak of the decidedly proletarian Papp or Mann in aristocratic terms, somehow it has always seemed fitting to speak regally of Miss Lortel. It isn't because of her background, which is ordinary middle class, but more her manner, which has something of an autonomous sweep about it. After making up her mind about projects yea or nay as quickly or as slowly as needs be, she then follows a suitable course of action without admitting any impediment. She does what she has decided is right to do; and time has shown that her judgment is uncannily perspicacious. Though she refuses to allow others to dissuade her from a firm decision, neither does she ask anyone else to be responsible for the consequences—as she calls the tune, she pays the piper. You might say that Lucille Lortel has always been the Do-It-Yourself Queen, and for that reason her little pillow speaks the truth.

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## "Mad About the Theater"

By her own admission, she has been "mad about the theater" from the start. After graduating from the Neighborhood Playhouse in 1921, she continued her studies abroad, accompanying her mother and brother, the concert violinist Waldo Mayo, to Berlin. While there, she acted for the first time, albeit as a pair of dancing feet in an Emil Jannings picture filmed at the giant UFA studios.

Upon returning to the United States, her theater acting career began in earnest. Initially playing in summer and winter stock productions in Maine and upstate New York, she managed to make her Broadway debut within a year. First came a bit part in the Theater Guild world premiere of George Bernard Shaw's *Caesar and Cleopatra*, starring Helen Hayes and Cedric Hardwicke.

"I played a whore on the wharf," she recalls. "All I had to do was look sexy and run across the

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stage with a bunch of sailors in hot pursuit. Well, at the first rehearsal I got halfway across, turned around, and in my best melodramatic acting style, threw my hands up in front of my breasts and shouted, 'No! No! I won't let you lay a hand on me!' Guthrie McClintic, the director, stopped everything and asked me where that bit of dialogue had come from. I told him it just 'felt right'; sending a steely gaze in my direction, he told me to cut it out or else. It seems he felt Mr. Shaw was quite capable of writing dialogue without my assistance. So much for my star-is-born debut."

After that Broadway saw her as the ingenue in *One Man's Woman* and the nymphomaniac in *The Virgin Man*. "I didn't really know what a nymphomaniac was, but I did my best to fake it. The critics were enthusiastic, so I must have done something right." Later she played Poppy, yet another nymphomaniac (this time also a drug addict!), in *The Shanghai Gesture*, which starred Florence Reed. "At the end of the show when Miss Reed, who was acting the role of my mother, discovered my dissipation, she threw me to my death down four flights of steps in her brothel. My main memory of that tour was being black and blue all the way from Kansas City to San Francisco."

None of these jobs came easily. "It took me years to get decent paying parts," she recalls. "I was just one of hundreds of young actresses banging on producers' doors, looking for work. On top of that, my family had some financial reverses then, and we had to move into very cramped quarters. I earned the family money, made our budget, and watched every penny. One day the great Luther Adler, then unknown and in the same financial straits as I, borrowed five dollars from me, a considerable sum at the time. He didn't get around to returning it, and years later, when our circumstances were much improved, I jokingly asked him when he was going to pay back the money. 'Never,' he replied, 'So you won't forget how poor we all once were, and how hard we struggled.'"

She never did forget, and for this reason she has always lent a sympathetic ear to the needs of theater artists and companies. Most tend to be impecunious far more often than not, theater being what it is, and a bit of help at the right moment can make the world of difference to an important project or career.

Louis Schweitzer, the brilliant chemical engineer, industrialist, and philanthropist, met and instantly fell in love with Miss Lortel in 1930. After a whirlwind courtship, which included his transatlantic telephone proposal, a then almost unheard-of blandishment, the couple was wed aboard ship on the *Leviathan* in the spring of 1931. Unfortunately, Miss Lortel's mother-in-law did not have a very high opinion of the acting profession, and threatened her son with dire financial consequences if his bride did not renounce the stage. Since he was still under his mother's thumb, he requested Miss Lortel's "retirement," and she agreed, for the sake of family peace.

"I didn't quite give it up completely though," she avers. "In 1930, Sessue Hayakawa and I made a Warner Brothers short of *The Man Who Laughed Last*, which we had played coast to coast in vaudeville. I liked the experience, and while my husband was working in Jersey during the day, I used to sneak away to Brooklyn in the afternoons to make more shorts for Warner's. Lou was none the wiser, so I got bold enough to take a small part on Broadway in the Theater Guild's production of *The Man Who Reclaimed His Head*, which starred Claude Rains. Lou caught up with me that time though, and made me quit. Except I didn't. I just decided to be a little less visible after that, and started doing *Advice to the Lovelorn*, a sob sister show on the radio. Everything was going very well, until critic Ben Gross advised newspaper audiences to tune in to the program to hear my low pitched, 'dramatic' voice; most girls cultivated high pitched, squeaky voices then, and I guess listening to me was a relief. Anyway, Lou saw the column, and this time the jig was *really* up.

"We bought a house in Connecticut in 1938, and for the next few years I was reasonably happy as a socialite. But then Lou's mother died, and suddenly he had a lot of money and none of his mother's restraints for the first time in his life. It turned his head, and he went a little wild, spending much of his time with a new crowd in Europe that I didn't like. I became depressed and sad; not only was my marriage foundering, but the stage career I loved and gave up for him once again began to weigh on my mind. I knew I had to do something, but I wasn't sure exactly what that something should be.

"One day, after the end of the war, I decided to give a party for Children's War Relief at my barn in Connecticut. Lily Pons and Danny Kaye enter-

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tained, and during the shindig Danny turned to me and said, 'You know, Lucille, this barn would make a great little theater.' It set me to thinking." Out of those thoughts, and the interventions of fate, came her new career as an art theater producer of world-wide influence and fame.

Since 1947, Lucille Lortel has produced over 500 plays on Broadway, off-Broadway, off-off-Broadway, and in regional and university theaters, both in the United States and abroad. To do it, she either spent her own money or, occasionally, that of a few individuals who shared her vision. But she has never used public funds to support her projects. "I feel that the benefits of government funding aren't worth the bureaucratic red tape one must deal with to obtain it; besides, using private money means I never have to concern myself with what the government thinks about the politics of my artistic personnel or the controversial nature of the statements they sometimes make in their work."

Since she looks to present the best in theater, no matter how conventional or outrageous it may be, ideological independence is of utmost importance to her. "If you are a serious producer, you cannot flinch where artists are concerned," she says. "Even in the days of red channels 40 years ago, I gave all the blacklisted actors who couldn't get work elsewhere a chance to perform in my theaters—Zero Mostel, Kim Hunter, Sam Jaffe, Anne Revere, all of them. People said, 'Aren't you afraid, Lucille?' but I said, 'No, I'm using my own money to hire them, so nobody has the right to tell me what do.'"

## The White Barn Theater

Her new career began at The White Barn Theater in the summer of 1947. "Phillip Huston and Canada Lee, two actor friends of mine, had a play, *The Painted Wagon*, that nobody would produce commercially. They asked if they could read it for my theater friends to get their reactions; I said 'sure,' and arranged for the reading to take place in my barn at the country house in Connecticut.

"Afterwards I gave a supper for everyone who attended, to encourage discussion of the play. Nobody liked the show much, but everybody liked the experience of hearing it read. Audrey Wood, a famous play agent who was in the audience, encouraged me to do more of these readings; in

MARC RABOY

***Lucille Lortel***

fact, she gave me another script immediately. That was *Some of the Sky*, which Joseph Anthony directed. Things were beginning to snowball, and somebody came up with a musical about struggling young actors called *No Casting Today*, which brought me back to my youth. That one introduced both Jo Sullivan (later Mrs. Frank Loesser), who went on to star in *The Threepenny Opera* and *The Most Happy Fella*, and the comedienne Bibi Osterwald. Somebody else gave me *The Ivory Tower*, which gave an early job to Eva Marie Saint; later she won an Oscar for *On the Waterfront*.

"By the end of the summer I had done six of these events. There was great excitement in the air about it all, and people were vying for invitations to get in. Big articles started to appear, both in show business trade papers and the general press. My husband was astonished to read a newspaper headline in Paris proclaiming 'A New Type of Theater' right in his own backyard, and rushed back to find out what all the commotion was about. You

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see, there was no off-Broadway or experimental theater then; it was all commercial. Having a theater situation removed from those pressures and problems gave people an exhilarating sense of freedom. Anything seemed possible in my theater precisely because everyone knew that nobody would go broke or ruin a career playing there. For the first time, theater artists knew they had the right to try and fail without risking censure, which is essential if something daring and new is to be attempted.

"I didn't pre-plan anything I was doing when I started, and nobody paid to see the shows or got paid to work. It was just a service for playwrights and other theater artists who wanted a chance to do something new. It's hard to imagine today how fresh the whole experience was, but we were pioneers."

There was one extra-theatrical benefit Miss Lortel received from starting her new theater. "When Lou got back from Paris and saw that I had done something so successful completely on my own, he gained a respect for me as an individual that he had never had before. Suddenly I wasn't just Mrs. Schweitzer but someone of importance in her own right, and that made him very proud. Also, though he wasn't crazy about the theater, he loved having his country home swarming with theatrical people. Their humor and verve were a far cry from the sober-sided business types he dealt with at work, and that was a big lift to him. So as he became interested in the life I was making for myself, we were drawn closer together. You might say that my decision to start The White Barn Theater saved my marriage."

Success, of course, breeds difficulty and expense. "I paid for it all out of my own pocket at first, but by the second year Actors' Equity started making problems. As far as I was concerned, I was giving parties at which a play was read and discussed, but Actors' Equity said no, the actors were working and should be paid a regular salary. They wouldn't let the actors rehearse for my shows. On one memorable Sunday we premiered Sean O'Casey's *Red Roses for Me* without rehearsals (it featured Kim Hunter, along with George Roy Hill, fresh off the boat from Ireland). The director read all the parts to the actors in the afternoon, and they performed at night. Though the show was successful, the experience was harrowing. After that, I agreed with Actors' Equity to pay the actors $15 a performance, and from then on my expenses started to rise. In 1949 I began charging $25 a couple to non-professionals to see the season's shows; they made up about half the audience of 150. The rest were producers, agents, and backers whom I invited to further the careers of the artists.

"As the theater continued to boom and our program expanded, two important things happened. The first was that we created The White Barn Theater Foundation, because my husband was convinced by his advisers that this was the proper set up for a not-for-profit art theater. He began to solicit contributions from theater-minded business associates under the foundation set up. This got me some help with my burgeoning expenses, and allowed the contributors a tax write-off.

"The second thing we did was to renovate the barn, putting in a real stage and real theater seats; previous to 1954, it was just a big room with a platform and drapes at one end, and folding chairs for the audience at the other. Ralph Alswang, the famous theater designer, worked with actress Eva Le Gallienne on the architectural plans for the renovation. Neither of them charged me for their considerable help."

Miss Lortel also began to expand her program in the direction of education. "We began having classes in 1951, first for older students and later for young children. In 1955, Miss Le Gallienne started teaching master classes. I guaranteed her $5,000 a season, and agreed that she would take only students she deemed worthy of her tutelage. Of course, professional friends and talented young people who couldn't afford it did not pay, and I made up the difference between what the classes took in and her guarantee. At this time also, great choreographers like Valerie Bettis and Jean Erdman began to teach at The White Barn, and we had classes going from early morning until show time. Mariette Hartley, Peter Falk, and Linda Hunt were among scores of students who attended.

"On stage at night, the shows were bigger than ever, some with elaborate sets and casts of 15 or more; in 1955 alone we did 11 shows in a season stretching from July 9th to October 30th. Many famous people, like Peggy Wood, Ruth Chatterton, and Margaret Webster, were now clamoring to work at The White Barn because they could perform there in shows they wouldn't have an opportunity to do commercially. A lot of future stars got a start at The White Barn too, from Rod Steiger

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and Geoffrey Holder to Flip Wilson, Mary Steenburgen, and Peter Bogdanovich, the film director.

"My audiences saw new plays, like Beckett's *Embers* and Ionesco's *The Chairs*, that I brought back from Europe every year; I produced Yukio Mishima's plays there for the first time anywhere in the States. Both established American playwrights like Tennessee Williams and beginners like Edward Albee premiered their works on my stage. It became *the* place to go every summer for whatever and whoever was fresh and exciting in theater.

"In fact, things got so hectic that I interviewed prospective audience members before I agreed to let them attend. We had a limited seating capacity, and although extra performances were added to meet the demand for tickets, there was only a certain number of people we could accommodate. If I didn't feel potential ticket buyers were genuinely interested in new theater, I didn't take them. It sounds snobbish, but it wasn't. You didn't have to be rich or social to get in, you just had to love new theater. Otherwise you were taking a seat away from someone who really cared.

"By 1962, it was costing $30,000 a year to run The Barn, despite all my efforts to hold down expenses. My husband, who saw how hard I was struggling to get by, wanted me to quit. But I felt I couldn't. There was a need for expression in the theater unconnected to financial considerations, and I knew I had a responsibility to see that this need was met. So I kept on."

## Off-Broadway Bound

In 1955 Mr. Schweitzer bought his wife the Theater De Lys on Christopher Street in Greenwich Village as a silver wedding anniversary present. The idea was that she would be able to continue her work in New York during the winters. Who could have known that the first show she produced there, *The Threepenny Opera*, would turn into a monster hit that would run for seven years?

The show was so successful that Mr. Schweitzer asked his wife to pay him back what he had laid out to buy the building. "My husband was a great philanthropist, who supported any number of charities, but he always kept business and charity separate. He worked to help me with my theater projects, but he was not disposed to give me money for them. When the De Lys turned out to be a hit from the word go, he didn't see why he should be out the money it cost to buy it, so I reimbursed him. Actually, he taught me a great deal about how to be frugal and not waste money in the arts. He thought it was a disservice to say something was nonprofit art theater and then throw money around. If it truly was altruistic art theater, then he felt resources should be husbanded so more art could be created. Furthermore, since these theaters represented my taste, he believed it was my responsibility to pay for them. The only way I could do that was to be very, very careful."

In order to relieve her frustration at not being able to do new shows at the De Lys because of the long run of *The Threepenny Opera*, Miss Lortel began the Matinee Series in conjunction with the American National Theater and Academy, or ANTA. These were White Barn-style premieres performed on Tuesday afternoons at the De Lys, when the theater was "dark." The actors, usually playing in long-running Broadway hits, were dying to do something different to keep their creative juices flowing, and this was their chance. Eileen Heckart, then in *The Dark at the Top of the Stairs*, played O'Neill's *Before Breakfast*; Richard Burton from *Camelot* joined Cathleen Nesbit to read Dylan Thomas, and so on. Begun in 1955 and lasting for 20 years, the Matinee Series was the true beginning of off-off-Broadway; Miss Lortel only gave it up when that type of theater was firmly established, and the need for this series was obviated.

Her enthusiasm and capacity for work have never abated. In the 1950s she produced Genet's *The Balcony*, a shocking work comparing society's leaders to perverts in a brothel. She brought the South African playwright Athol Fugard to the U.S. in the 1960s. Persona non grata in his own country and a failure in London, he was set on the path to international recognition by her 1964 New York production of *The Blood Knot*. At this time Miss Lortel also began a 30-year tradition of taking productions of some of her distinguished plays to the Library of Congress in Washington.

## *A Walk in the Woods*

More recently, she was nominated five times for Broadway's Tony Award as producer of the best play or musical of the year. These productions included Lanford Wilson's *Angels Fall*, which pre-

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miered at The White Barn; *As Is*, the first play about AIDS; a revival of *The Blood Knot*; the South African musical *Sarafina*; and *A Walk in the Woods*, a landmark drama about Soviet-American arms reduction. The last was of special importance to her.

"The humanity of this play touched me deeply, and I was sure it would have the same effect on thousands of others. It was written in 1987, just as the issue of nuclear disarmament was becoming a subject of crucial importance to people throughout the world. *A Walk in the Woods* put a human face on the situation, dealing as it did with a wily old Communist and a fresh-faced, uptight American, both arms negotiators in Switzerland trying to represent their governments' policies and at the same time achieve genuine nuclear arms reductions. Its downbeat conclusion proved to be very affecting, and more than that, a cautionary tale. Never more so than when I was invited by three Senators to present the piece before an audience of both houses of Congress at the Library of Congress the week they were to vote on the nuclear arms reduction treaty. The treaty was stalled, and had to be ratified very quickly for Reagan to be able to sign it with Gorbachev at the summit. Rarely have I seen an audience as deeply moved as this one was. At the conclusion of the performance Congressmen and Senators stood around in groups speaking of the absolute necessity of ratifying the agreement, and three days later it was approved. That performance was in many ways the high point of my career."

Financially, putting the play together was very difficult. Miss Lortel thought this simple, two-character play should be done off-Broadway, but the author, director, and Yale University, who had done the first production of it, wanted Broadway, and without big star names. Since they controlled the rights, that was how it had to be done, with Yale as a non-financial producing partner.

The big money meeting on the show took place at a luncheon in Miss Lortel's apartment on October 19, 1987. It was Black Monday, the day of the biggest stock market crash in 60 years. As she passed around deviled eggs and crab meat salad, the world was falling apart. Every few minutes her secretary would rush in with the latest bad news: "Down 100 points"; "Down another 150." People around the table were visibly shaken; sweat poured down over their pasted-on smiles. But Lucille Lortel remained calm, taking care of her guests and discussing the business at hand. She reassured everyone that she intended to continue with the project, no matter what financial difficulties ensued. She had made a commitment, and was going to honor it. All were relieved, thanked her profusely and left.

When asked why she didn't use this crisis as an opportunity to back out of the project, now that its costs were ballooning since the principals were insisting on a Broadway production, she replied that she had given her word and, besides, she felt the play's statement was too important to abandon. "If worst comes to worst, I can always sell my jewelry from the vault. This play just has to be seen."

The worst didn't happen, and public television's *American Playhouse* eventually came in for half the budget. But that didn't end the problems. On opening night, the all-important *New York Times*, which had liked the show at Yale, gave it a bad review. Despite the fact that most of the other reviews were quite favorable, her partners and managers advised her to close the show.

She refused, and put up another $200,000 (along with $100,000 from American Playhouse) to give the show a big publicity push. Furthermore, she rolled up her sleeves and got a number of full page ads in the *Times* at deep discounts, arranged for signs on the sides of buses all over town at cheap rates, and put together all the theater parties she could muster. The results: the show ran over four months on Broadway; it was nominated for two Tony Awards; American Playhouse televised it throughout the U.S.; Alec Guinness and Edward Hermann starred in a London production; it was shown to members of both the House and Senate at the Library of Congress; and it became one of the most produced plays at regional theaters throughout the country. "Getting to opening night is just half the battle. Then you have to roll up your sleeves and pull out all the stops to keep the audiences coming. Many fine shows have died on the vine because producers didn't do their jobs," she reminds us.

To top it off, the Soviet government invited her to bring the show to the U.S.S.R., truly amazing at that time, considering that the piece dispenses criticism evenhandedly to both the Soviets and the Americans. Just a year earlier, *A Walk in the Woods* would never have been seen in the

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Soviet Union under any circumstances.

Once again, financing this venture wasn't easy. "The Russians paid for living expenses in their country, but I had to come up with the rest, some $120,000. You'd think people like Armand Hammer or companies like American Express would have been happy to write big checks to be a part of this, but no. I put up a third, and raised the rest from concerned individuals, which was tough. The biggest contribution was $5,000. It took the better part of a year to complete the financing. But when I saw how grateful the Soviet people were to have the show, I felt it was well worth the struggle to bring it to them."

## A Working Monarch

Today, at an advanced stage of life, Miss Lortel is as busy as ever. The White Barn had four shows last summer, and the De Lys, renamed the Lucille Lortel at her friends' insistence in 1981, currently houses the hit musical *Falsettoland*. Her next planned project is *Stevie Wants to Play the Blues*, which she found in California. "It's a musical play about sexual identity set in the world of seedy nightclubs and dope addiction. Some of it is raw and shocking, so it's not for everyone. But it's also very touching, and I feel it should be done."

Since Miss Lortel continues to be so active, she is well aware of how much things have changed since she started. "In 1954, *Threepenny* only cost $18,000. Today it would cost way over $1,000,000 off-Broadway, and with a cast of 18 and an orchestra of nine, you would barely break even if you sold every seat. They did a flop production of the show on Broadway last year that lost over $5,000,000. If he were alive today, my late husband would be shocked to know that The White Barn, which used to cost $30,000 a year, now costs $150,000. The economics of producing has complicated the whole situation far more than it should have. People are afraid to take chances on anything new and untried, and that is very bad for the art of theater.

"When I started out I almost never had partners, preferring to produce on my own because I hated to ask people to invest in my taste. But with costs as they are, I've been forced to go in with others for the last 10 years or so. If I were beginning now, I suppose I couldn't even think of being as independent as I was. I would have to have lots of partners for the commercial ventures and learn all about corporate fund raising for the not-for-profit work. It still would go against my grain to look for government grants though, because of the financial and, potentially, the ideological public accountability. In the arts, one's time and money should properly be spent on artistic matters, not on governmental bureaucracy. To be a great producer, one must understand finance and administration well, but one must understand art even better. That does not happen if you and your staff have your heads buried in government rule books all day.

"However, art does not happen in a financial vacuum. The money has to come from somewhere. People who believe in private support for the arts have to do more than talk about it. They have to spend money on it. Otherwise the most serious art our culture has to offer will be subject to the dictates of the commercial marketplace or government policy, a situation which is at best uncomfortable and at worst dangerous. I lived my life independently, believing that art should be independent. Only the active support of other like-minded individuals will make it possible for people like me to exist in the future."

Asked to sum up her career, she lowers her gaze and thinks for a moment; then she raises her head to fix your eyes with her own. "Basically, despite its complexities, producing is simple. You have to use good judgement to choose a worthwhile property, and believe in it completely. Then you have to use all your resources, both internal and material, to get it on and keep it on. That's simple enough, isn't it?"

As the Queen of Off-Broadway laughs, her great liquid eyes sparkle like deep brown diamonds in the afternoon sun. Her mind is her true crown; the eyes are diadems of the spirit, shining from within. □

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# Price Controls Do Not Control Prices

by Bill Anderson

As the fighting raged in the Persian Gulf, the conversation in my college economics class invariably turned to the conflict—and its economic effects. In the past several months, students have seen gasoline prices rise and fall rather violently and are puzzled by the whole affair. "How many of you believe," I ask, "that had the government kept price controls on gasoline instead of lifting them in 1981, gas would be cheaper at the pump than it is now?" Forty hands rise as one, matching the number of students in the room.

I'm not surprised by their response, for even though this is an upper-division class, rarely do college students learn the origin of prices in principles of economics. And even had they learned the dynamics of price theory, most likely they would also have remembered the professor telling them that price controls do produce lower prices—even if those controls cause other economic dislocations. Price controls, their textbooks said, deliver at least some of the goods.

"If we adjust prices to inflation," I ask, "what, then, would be the 1980 price of gasoline compared to what we pay now?" No hands are raised. "Let's try $2 a gallon," I say, answering my own question. "And remember that in 1980, the U.S. Department of Energy set gasoline prices ostensibly to protect consumers." The student in the back of the room who had his head on the desk raises up to listen better; suddenly, the discussion has become more interesting.

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In the days since Iraq's August 2 invasion of Kuwait, we have seen oil and gasoline prices rise and fall with intensity. A few days before the invasion, the price for a barrel of oil stood at about $18. By October the price was $40, and "experts" told the U.S. media that, at best, $30 would be the new floor price. By January 15, the U.N. deadline for Iraq to leave Kuwait, prices were slightly below $30. A day later, they had plummeted $10 a barrel.

These numbers are even more significant when one takes inflation into account. In the early 1980s, when the Department of Energy was setting domestic oil prices, the world price for a barrel of petroleum stood at about $40. After accounting for a decade of inflation, the $40 barrel would be about $60 today. The 1981 peak price of $1.41 for unleaded regular gasoline would equal $2.10 today.

But even though the prices of oil and gasoline have fallen substantially since their autumn highs (on December 1, I paid $1.39 for a gallon of regular unleaded at a nearby gas station; in mid-April, I paid $1.02), the public is still unhappy, and Congressmen have responded by introducing dozens of bills to reimpose price controls.

## Do Controls Really Work?

The dynamics of price controls are misunderstood, even by economists. Most economics textbooks accurately portray what happens when government imposes price controls, *at least in the short run.* Because price performs the vital role of allocation of resources, a price held below what

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the market will bear causes dislocations in the form of shortages. In the case of gasoline price controls in the 1970s, shortages meant long lines and empty gas pumps.

The gas lines were only short-term effects of price controls, however. Within a few months after the initial crisis, allocation procedures plus the imposition of gas rationing by some states returned what seemed to be a normal market. This was what happened in 1973 and 1979.

## An Emerging Pattern

When one examines the two supply shocks in the 1970s, a clear pattern emerges, a pattern tied directly to government price-control and allocation policies. First came the panic, as motorists realized prices were going to rise and that future supplies might be short. Drivers waited in long lines as they sought to purchase gasoline before stocks were depleted.

Second, prices rose as predicted, bringing an angry chorus from the public and legislators. Both times, the federal government strengthened its powers of price and allocation controls. And, both times, prices did *not* fall back to pre-crisis levels. On the contrary, prices remained at the current levels for a short time, then began to creep upward as inflation increased.

Contrast the experience of the 1970s to that of August 1990, when the world suffered its greatest oil shock since World War II. Within hours of Iraq's invasion of Kuwait, prices for oil quickly rose in the world's trading pits, increases that were almost immediately passed on to consumers—bringing the usual chorus of condemnation from politicians and "consumer groups."

Throughout the early days of the crisis, media commentators predicted that gas lines would be next, and that shortages of heating oil and other fuels would plague our nation as cooler weather approached. Even *The Wall Street Journal* told its readers that "experts" were warning consumers to ready themselves for long lines. The "experts" were wrong. While gasoline prices rose quickly, Americans found that gasoline was readily available. The gas lines never materialized in 1990 and will never occur so long as gasoline is rationed by the price system.

A further important difference between the supply shocks of the 1970s and the supply shock of 1990 is what happened to oil prices after the initial crises abated. In 1973 and 1979, prices climbed to new levels and remained there; but prices during our latest crisis fell back close to where they had been before the invasion.

Why gas lines don't form when price rations gasoline is easily explained. When outside forces (usually governmental) hold prices below market levels, false signals are sent to both consumers and producers. Consumers are encouraged to buy more than what is available on the market, while producers are discouraged from providing that commodity because they cannot receive revenues that justify production and distribution costs. In short, the system encourages consumers to demand more than what producers will make, thus creating bottlenecks in the market. This is what our nation experienced in the 1970s.

Last year, however, prices were allowed to reflect not only the sudden decline in supplies, but also the uncertainty that gripped the oil markets. Given the information available at the time, prices did not send wrong signals about supplies—as had been the case a decade earlier. And because prices transmitted accurate information to consumers, they were better prepared to make rational decisions about fuel use.

Economists have done an effective job of explaining why price controls cause economic damage, whether the damage be gas lines in California or housing shortages in rent-controlled New York City. However, they haven't effectively shown why prices can rise in a controlled environment, yet fall in a free market. As one contrasts the oil shocks of the 1970s to that of 1990, two questions appear: "Why did prices continue to rise when regulators, supposedly working with consumers in mind, were setting them?" and "Why have prices fallen when they were left to profit-minded producers in the marketplace?"

To answer these questions, one must return to the original lessons learned in principles of economics. Yes, shortages occur when controls hold prices below market levels, and those shortages force consumers to incur new costs in order to obtain the commodity in short supply. As Armen Alchian and William R. Allen have pointed out, "*. . . if price is restrained below the market-clearing equilibrium, other forms of competition will become more significant.* Political power or other costly means of competition for the goods will

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decide who gets more and who gets less." (*Exchange and Production,* Wadsworth Publishing, third edition, p. 62, italics in original)

When the oil shocks occurred in the 1970s, government restrained price increases. While authorities believed they were creating bargains for consumers, they were actually forcing consumers to absorb other costs to substitute for their "savings" on oil. The most obvious cost was time. What had originally been a five-minute stop at the gas station turned into a wait ranging from several minutes to several hours when motorists panicked at news of shortages. Mandatory conservation measures passed by several states, while helping quell consumers' fears, brought about even more costly delays.

Eventually, oil prices slowly rose as Federal regulators permitted companies to charge at market-clearing levels again. New pump prices replaced motorists' time costs, trading one set of inconveniences for another. However, because motorists understood that pump prices were legally mandated, they believed prices were at their lowest possible levels. This did not mean that they were satisfied with oil prices; on the contrary, most Americans believed oil companies were gouging them. But because the government set prices, *consumers had no expectations of oil prices ever falling significantly.* Consumers believed the government was "protecting" them (though not protecting them enough, according to critics).

## Cost-Plus on the Supply Side

When the supply shocks from the 1979 Iranian Revolution hit the oil market, gasoline prices couldn't be kept at pre-revolution levels, since oil producers would have had to sell at a loss. As is the case with almost all price controls, the Energy Department based prices on a cost-plus formula. Using industry-supplied figures, it examined the cost structure of the oil industry, then allowed a price that covered costs and afforded a "reasonable" profit.

In an economy with even moderate inflation, operating costs increase on a regular basis. With U.S. inflation in double digits by the early 1980s, there was every reason to anticipate higher and higher costs in the energy industry. Federal energy regulators, using their cost-plus formula, would have passed those anticipated higher costs on to consumers. Thus, ceiling prices on oil, perversely enough, also would have served as "floor" prices. Had President Reagan continued price controls, gasoline prices most likely would have continued to rise, and Americans would have paid hundreds of billions of dollars more for gasoline and heating oil than they did during the past decade.

Deregulation of oil prices ended the official stamp of approval on price increases. Oil companies, like airlines, had to compete in the open marketplace. Without the protection of price-setting regulators, they had to lower prices when market conditions so dictated. Oil company profits fell back to normal (and even below-normal) percentages.

Prices fell for three reasons. First, as already pointed out, the demise of price controls meant the end of "floor" prices on oil. Second, the Western industrial world, including the United States, became significantly more energy efficient. Third, oil-producing countries had to become competitive in selling petroleum.

This last factor was made possible, however, only with the return of a competitive U.S. oil market, the largest market in the world. Once the Energy Department relinquished price and allocation controls, the U.S. market had to operate according to the same laws of supply and demand that govern other commodity markets.

The dynamics of the market are obviously not limited to oil. Long-term price controls have forced up prices in other markets as well. New York City's rent controls have created some bargains for people who have held the same apartments for many years, but have imposed higher costs upon people seeking new places to live.

A free market for oil could not protect Americans from high prices in the weeks immediately following the Iraqi invasion of Kuwait. But no energy program could have accomplished that.

What we have found, however, is that the free market enabled us to quickly adjust to the new market realities—and it rewarded us afterwards. □

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# Why the Welfare State Is Immoral

by Tibor R. Machan

*"[The] social point of view . . . cannot tolerate the notion of rights, for such notion rests on individualism. We are born under a load of obligations of every kind, to our predecessors, to our successors, to our contemporaries. After our birth these obligations increase or accumulate, for it is some time before we can return any service. . . . This [to live for others], the definitive formula of human morality, gives a direct sanction exclusively to our instincts of benevolence, the common source of happiness and duty. [Man must serve] humanity, whose we are entirely."*

This was written by the 19th-century French social philosopher Auguste Comte. It serves well to identify the viewpoint that welfare statism—whether conservative or radical—wishes to graft onto the unique American political tradition, individualism. It is the viewpoint that drives many intellectuals in our time. On the Left it is economic welfare statism that reigns, while on the Right it is the kind of spiritual welfare statism exemplified in William F. Buckley's recent book, *Gratitude* (which advocates national service for all who wish to attend college at taxpayer expense) that promotes the ideal.

Both Left and Right are critical of individualism. Both suspect it of leading to alienation or antisocial attitudes. At a time when major changes in geopolitical affairs call for answers to broad political economic questions concerning which system best suits human community life, it is vital to consider whether socialism should be replaced with its watered-down version, the welfare state, or with an individual rights-based political order. At this point the war of ideas is fought over which alternative to collectivism is best, and individualism is under widespread attack.

What exactly does individualism advocate? It maintains that each normal individual is a sovereign being so far as some very basic choices of his or her life are concerned. A person must be the final authority to decide whether to do right or wrong, to marry or remain single, to choose a career in academe or business, to volunteer for military duty or stay out of the service, to worship in line with one given religion or another, or none at all, and so on. In these matters each of us is ultimately alone. We can gain help, but make our own decisions, for which we are ultimately responsible.

Does this kind of individualism preclude the sociability of human beings? By no means.

Individualism sees human beings as originators of some of their crucial behavior—mostly their thinking processes by which they come to grips with the world around them and proceed to guide themselves. Even as every person learns a great deal from others who have come upon this world before, he or she needs to choose whom to listen to and whom to ignore, whom to trust and whom not to trust, and so forth. And what is best for individuals is most often going to involve extensive and close relationships with others. But even these will be of value only if the individual chooses with-

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out being coerced into them. This is the human condition.

Of course, many prominent thinkers disagree. For example, Karl Marx said that "the human essence is the true collectivity of man," meaning that when we finally reach our true historical destiny, we will all be part of what he called "the organic whole" of humanity. For such thinkers human beings are but the equivalent of intelligent ants or bees, parts of a larger body, somewhat as our fingers and toes are parts of the hand and foot.

But this view fails to take account of a most fundamental human attribute—freedom of choice or free will. Admittedly, this attribute didn't appear to be reconcilable with some of the supposedly scientific viewpoints about human nature. Many 17th- and 18th-century thinkers held—and many people still hold—that we are but a part of a mechanistic universe, following impersonal laws of nature. Any other view was deemed mystical and anti-scientific.

Yet it turns out that this belief was no more than a desperate wish, resting on hope rather than evidence. While a human being is, of course, subject to many impersonal laws, there is now evidence and there always has been convincing argument to show that when it comes to a person's most essential capacity—abstract thought—each of us is on his own. (As a teacher it is only too obvious that we cannot make anyone think—that is always the job of the person, not of outside forces!)

From these considerations follow some very important practical points.

First, we are responsible to do well at our task of living our lives—this is our first choice, implicit in the fact that we want to live. This basic decision puts us on a course that commits us to intelligent thought and action. That is the human mode of life, with all the complexities it implies. It also explains the enormous complexity and challenge of our lives—how each generation practically reinvents culture, even while it draws on what came before.

Second, for a human community to do justice to our need to make basic choices and follow through on them, it must embody a sphere of exclusive jurisdiction for every person. This is what basic individual human rights accomplish. They are borders around us, recognizing that our lives are ours, not humanity's or the state's or the race's. (Notice that every dictator first denies that a person is his or her own sovereign ruler.)

Third, private property rights are the concrete expression of our sovereignty—the poet owns his poetry, the novelist her novel, the composer his music, the industrialist her plant, the professor his book, the computer programmer her program, and so on. Of course, each will gladly exchange some of what he or she owns for what others own, provided terms are agreed to peacefully. And, of course, there is much benefit to be drawn from community. But it must also be noted that some community is intolerable to a decent person, and only if he or she is able to withdraw to his or her dominion can the judgment to reject the bad company be acted upon.

If private property rights are sound principles of a just society, then the welfare state, since it forces people to part with what is theirs even against their own choices, is unjust. To put it simply, it perpetrates legalized theft by taking from some persons what belongs to them and making it available, without the consent of the owner, to others. While the objective the government may serve by this could be justifiable and even noble, the means used to promote that objective are plainly criminal.

Of course, one can ask, how else might those objectives be achieved? The answer is, "In millions of possible peaceful ways, but not by means of the violation of the rights of individuals." We are not to be made slaves even with the excuse that the goals of our slavery are laudable. We are not to be deprived of our honest holdings even if we do not use them as generously and wisely as others might think we ought to. Most of all, we are not to be made the subjects of kings, politburos, or majorities who devise the objectives of our lives without our consent. What we do to solve our problems, even those dire ones that lead some very decent people to yield to the pleas for the welfare state, is a matter for us to discover and implement as diligently as possible. □

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# The Fight for Beijing

by Steven W. Mosher

*Two years ago this month the Beijing regime sent troops and tanks to crush China's pro-democracy movement. Here is an eyewitness account of those days of terror in the Chinese capital.*

*The Communist terror continues to this day, as pro-democracy demonstrators are brought to trial and punished severely.*

## Rescuing a Friend

"The People's Liberation Army is firing upon the people!" Chen Jian screamed in Tao Ye's ear. Tao nodded. He could see the Communist troops advancing down Changanjie, Beijing's main thoroughfare, firing their automatic weapons at anyone who ventured too close.

When Tao had first heard the distant pop-pop-pop of automatic weapons, he had thought the troops must be firing in the air. He and a group of fellow workers had left Tiananmen Square in the direction of the firing, hoping to form a human barricade against the advancing troops. This had worked before. The troops had been unable to force their way through tens of thousands of people standing shoulder to shoulder, and had turned back.

This time was different. The crowd tried to stand its ground, shouting at the troops not to fire their weapons at unarmed people. The troops answered with their guns. The people would then take flight like a flock of startled sparrows, before coming to rest again the length of a football field away. Left behind in this wild retreat would be the bodies of the dead and wounded. The troops moved forward steadily. Tao knew what the fate of the wounded would be if they were captured by the army.

"We must save the wounded," Tao told those around him. "Who will join a Dare-to-Die Brigade?" A dozen voices answered him, a dozen shocked and frightened onlookers who were ready to put their lives on the line. They were all workers. A student who wanted to join was turned away. "Go home," Tao told him. "You know too much to waste as cannon fodder. The country needs you. We workers will not be missed."

Fifty yards in front of them a man was trying to crawl back to safety, dragging an injured leg. Tao and three others ran out, in a low crouch, onto the no-man's land. They picked up the injured man, and began to run clumsily back to the safety of the crowd. Bullets whistled around them.

Six times they ventured out onto this no-man's land, pulling, dragging, or carrying the wounded to safety. Six times they went to the nearest hospital, the Beijing Children's Hospital, with those they had saved. Each time the hospital was more crowded with the wounded, while the dead lay stretched in long rows in the hospital courtyard.

It was the seventh rescue attempt that went awry. Tao, his friend Dong, and two others were carrying a man who had been gut shot. Tao staggered as his load suddenly got heavier. Dong, a member of the Brigade, had fallen. Tao pulled the wounded man to safety and then, without stopping to catch his breath, ran back to where Dong had fallen. A bullet had struck him in the thigh, gouging away a big chunk of flesh. Blood had already spread out

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in a dark pool on the pavement beneath him.

He wrestled Dong to his feet, supporting him under the shoulders. "Run, Dong, run!" he cried. But Dong, weak from the loss of blood, could scarcely stand, even on his good leg, much less run. Tao had to drag his friend along. After what seemed an eternity they reached the relative safety of the crowd, and willing hands carried Dong to a bicycle cart. Tao tied a tourniquet around his bleeding leg, and then ran alongside the cart to the Children's Hospital, shouting encouragement to his friend. But by the time they arrived at 3:30 A.M., Dong was unconscious.

Tao, unwilling to leave his friend, stayed at the hospital, numbly helping with the dead and wounded as they were brought in. Soon there were no more beds, and the wounded had to be placed on temporary cots in the corridors, and finally on the floor. Many, like Dong, had lost a great deal of blood. The hospital's small supply of blood plasma was soon exhausted; an ambulance was sent for more. Red lights flashing and siren sounding, it roared out of the main gate of the hospital, only to be attacked by troops at the first intersection. It exploded in flames.

The dead kept increasing in number, spilling out of the small morgue and onto the courtyard in front of the hospital. Bodies continued to be carried in from the streets, and now bodies began to be carried out of the hospital to make room for the living. By morning the courtyard was full of corpses, lying in uneven rows upon the cold ground. At 6:30 A.M., Tao laid Dong on the cold ground beside the others. He had died for lack of a blood transfusion.

## Fighting Back

The dawn did not bring respite from the nightmare of the night. The reality of what had happened was worse than any nightmare. Not only Dong but hundreds, perhaps thousands were dead. Other thousands had been wounded.

Tao was alive, and he was a survivor. His mother had died when he was a child, and his father, a high-ranking Party member, had been arrested during the Cultural Revolution. He was an "orphan of Mao." He had survived those years of terror by joining a Red Guard group. They had been his family for three years, and then they, too, had been arrested on Mao's orders and sent to the labor camps. His older brother had also been arrested and sent to the camps, where he had died of liver cancer. Communism had taken from Tao everything he had ever held dear. He had known it was a cheat, a trick, a deceit, from that time forward. All the wonderful talk about the dictatorship of the workers was a fiction. It was just dictatorship, pure and simple.

Tao knew how the workers felt. He had been one himself for nine years. He had worked as a mechanic in a truck factory in the city of Hankow from 1970 to 1979. Later, he had gone back to college and studied law. China needed laws, he had felt strongly, laws before which everyone stood equal. One could not put one's faith in individuals, even reformers like Deng Xiaoping, but only in laws.

When the demonstrations started, Tao had gone back to his roots. He had joined the Independent Alliance of Workers on June 1st. He didn't want to be associated with intellectuals. All intellectuals ever did was talk. Workers were not afraid to act. And they could bring real pressure on the government. They could shut down the factories. They could turn off essential utilities. The thought of the Communist Party trying to run the country without water, electricity, telephones, or trains made Tao smile.

For several days he had taken part in the peaceful, nonviolent protest for democracy in Tiananmen Square. At that time he still thought that the system could be changed gradually. But now the army had opened fire on the people. The first few hours, seeing the slaughter, he was numb, thinking only to save the wounded. But now with the dead in front of him, he thought of what must be done. There could be only one response to such tyranny.

His work here was done. It was six kilometers from the Children's Hospital to the An Dun Qiao district of Beijing where he lived. Tao set off at a trot. As he ran he thought of Beijing's millions of workers. After this night of slaughter, many would be ready to fight. If they could just be organized, this government wouldn't last a day.

There were thousands of people in the streets, talking in angry clusters. Others were ready to act. In Tao's district, rebels had already looted the weapons lockers of factories, and had turned the local gas station into an armaments plant, produc-

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ing Molotov cocktails by the thousands. Other groups had built makeshift barricades by overturning carts and cars, buses and trucks, blocking the main roads leading into the district.

Tao joined a group of guerrillas, armed with these homemade firebombs and an odd rifle or two, guarding one of the entry points. So poorly armed, and with the army shooting on sight, they would have been cut down out in the open. Instead they secreted themselves behind the barricades, off in alleyways, and on the tops of buildings, ready to greet any approaching military or police vehicle with a wall of flame.

Tao's company didn't have long to wait. A block away, an armored personnel carrier (APC) turned onto the street they were guarding. It moved quickly up the street, its machine gun firing off short bursts at anything that moved. Children were a frequent target. Their curiosity led them to stand in doorways, or to look out of windows, and often killed them.

From his hiding place, Tao watched the APC as it came nearer. Then he caught a sudden flash of movement. A small boy darted across the street directly in front of the oncoming APC. A burst of automatic weapons fire stitched across his chest. A few seconds later, never swerving, the APC ran over him. Tao Ye thanked God that the boy was already dead.

Tao's head was pounding. When the APC was 40 yards from the barricade he lit the rag in the neck of a bottle. When it was 20 yards away and slowing, he stepped out into the street and let fly. The bottle flew in a flat arc and shattered on the driver's side of the vehicle, bursting into flames. A second, a third, and then a whole flurry of bottles broke against the wheels and gun turret. The vehicle was engulfed in flames. Machine guns fired wildly from its gun ports for about 30 seconds at nothing in particular and then fell silent.

The doors of the APC burst open. The soldiers on board clambered out to safety, threw down their weapons, and ran. They were village youths, and had no stomach for a fight in close quarters against an enemy they couldn't see.

Tao's group gathered up the discarded AK-47s. Someone thought of saving the ammunition on board the burning APC, but the crack and pop as it exploded scattered them. They watched at a distance as the APC burned down into a black, smoldering hulk, regretting only the loss of the ammunition. They now had guns, but precious few firecrackers, Tao thought ruefully.

For three days Tao's group fire-bombed every official vehicle, from army trucks to police cars, that came within range, filling the street for several blocks with a score of burned-out skeletons. For the first three days, the army kept clear of the area.

On June 7th it assaulted in force. The column of troops and armored personnel carriers was repulsed with barrages of automatic weapons fire and sheets of flame. No fewer than six APCs were destroyed by the end of the fighting. But Tao's group and the others that had joined it suffered heavy losses. Worse yet, they used up all of their ammunition and most of their gasoline in the two-hour fire-fight. Had not the people come out in force, some to throw homemade firebombs, others to rain down bricks and rocks on the troops from the rooftops, they would have lost.

As long as Tao heard the sounds of fighting, like distant thunder rolling over the city, he was encouraged. He knew they were not alone, that resistance continued in other parts of Beijing. On the afternoon of the eighth day, however, the thunder began to diminish. By the morning of the ninth the scattered reports of machine guns could be heard from the neighboring quarter. It was the sound, Tao knew, of mopping up. The army would soon be paying them a visit in force.

Further resistance was futile. Tao told his ragtag forces that it was every man for himself. Tao himself returned to his apartment and, for the first time in four days, slept.

## Troops Come for Tao

Tao awoke suddenly the next morning. He was on his feet before he realized what had startled him. It was the silence. After five days of near continuous gunfire, calm had descended over the empty streets. The resistance had ended.

He paced around his apartment, grappling with his own problem. The list of labor union members had undoubtedly fallen into the hands of the authorities. His name was on that list. And if they didn't yet know of his participation in the resistance, they soon would. His name was probably high on the list of counterrevolutionaries to be arrested. As a worker, not an intellectual or a student, he could expect no leniency. His life would be forfeit.

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The ring of his phone caught him in mid-stride. It was his father. "Son, could you come over? My illness has taken a turn for the worse." Tao's father was bedridden with liver cancer.

Tao instantly put aside the problem of his escape. Avoiding the main streets, he cycled to his father's apartment. Bursts of gunfire punctured the morning stillness. The arrests are beginning, he thought to himself.

He had been visiting with his father for only a few minutes when he heard the front door slam. "Tao Ye is dead! Tao Ye is dead!" he heard someone shouting. His younger brother burst in through the bedroom door, tears streaming down his face. He stopped, dumbstruck, when he saw Tao.

The brother had been on his way to Tao Ye's apartment when a convoy of armored personnel carriers and trucks had pulled up in front of the building. As soon as they were within range of the window of Tao's apartment, they had opened up with machine guns. Squads of soldiers leaped from the trucks, some taking up positions on the street, others running into the building.

When they reached Tao's apartment on the top floor, they fired their weapons wildly into every possible hiding place, destroying lamps and furniture and beds. "They would not have given you a chance to surrender," his younger brother told Tao Ye. "They wanted you dead."

The hunt for "counterrevolutionaries" was under way in earnest. Later that day Tao got word that Chen Jian, another member of the labor union, had been arrested. One by one, they were being hunted down. He had to leave China.

## Escape to Hong Kong

Tao sat in the airport lounge, trying to look relaxed—and foreign. He was traveling under the Thai name "Sambat." His forged Thai passport stuck out prominently from his shirt pocket. Even so, he had twice been stopped by soldiers, who were swarming everywhere. They had thumbed through his passport and tried to interrogate him, but he had pretended not to understand. "Thai citizen, Thai citizen," he had repeated in what he hoped was suitably broken Chinese. His passport was good enough to fool ignorant country soldiers, but he knew it wouldn't stand up to close scrutiny.

It had taken only two days to get the passport and the ticket. Even so they had come through just in time. This morning Tao had seen a picture of his friend Chen Jian on state television. It hadn't looked like him at all. His face was beaten until it was twice as big as normal. Now he is undoubtedly dead, Tao thought. The same fate that will await me if I am caught. He silently thanked his friend. He gave me two days of time, and if I can get out today . . . Otherwise I meet the same fate, and probably betray others in the bargain.

"Are you Sambat?" a man wearing an airport security uniform asked him. He nodded. "Come with me," the man said. He would board the aircraft through the crew entrance, avoiding the immigration check. It had been so arranged.

Tao found himself on a nearly empty plane. He counted only seven other passengers. Yet he knew that everyone would leave if they could. The plane was scheduled to take off at 11 A.M., but they were still sitting on the ground at noon. The control tower hadn't given them clearance to leave. Tao was sure that a squad of soldiers would board at any minute and pull him off the flight.

At last the plane rolled down the runway and was airborne. Tao took one last look at Beijing, an occupied city. The Chinese Communists had thought that they could retake Beijing from the people in a day. Instead it had taken nearly a week. If only one division of the army had come over, Tao thought to himself, or if we had had a few more days to organize the workers, the outcome would have been different. Next time it would be, he vowed.

## No Asylum

In Hong Kong, Chinese democratic activists had organized themselves into the Committee to Aid the Mainland Democracy Movement. Tao went to see them as soon as he arrived.

"You know it is dangerous for you to remain in Hong Kong," the old Hong Kong Chinese told him after listening to his story. "We can help you make arrangements to go to a third country. France, for instance."

"I'd like to go to America," Tao Ye told them firmly. America. The very sound of it had the ring of freedom about it. He and his friends had been inspired by the ideals of America, the country that believed not in dividing people into classes (like Marxism), but that all men are created equal. "Give me liberty or give me death," they had

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sworn to each other, a vow that many had paid for with their lives. He had applauded when the "goddess of democracy," modeled on the Statue of Liberty, was erected in Tiananmen Square.

The older man's answer brought him out of his reverie. "I am afraid that will be impossible," he told Tao Ye flatly.

"But why?" Tao Ye asked. "I thought America supported China's democracy movement. And after the Tiananmen Massacre, I heard on the Voice of America that . . ."

"We know, we know," the older man said gently, interrupting him. "We, too, heard on the Voice of America that many countries were willing to accept those who escaped from China.

"We naturally went first to the U.S. Embassy in Hong Kong. We asked them straight, 'If we save people, will you help?' But the Americans played *tai chi* with us, putting us off, day after day. We put our request in many times, but there was no answer, which was answer enough.

"We then went to the French," he continued. "Immediately, without hesitation, they said yes."

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Today, Tao Ye lives in Paris, where he is active in the democracy movement. His goal is to organize a Chinese Solidarity, modeled after the Polish labor federation that has now won power in that country. "Most of those who died were workers, not students," Tao says. "If freedom is to come to China, it will be because the workers throw out this hated regime. And they will. This regime cannot last long." □

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# A Closer Look at "Dumping"

by S. J. Cicero

One hears frequent complaints that foreigners, particularly the Japanese, "dump" their merchandise (sell it below cost) in American markets, thus making it difficult for U.S. manufacturers to compete. Is there any truth to these charges?

First, we need to bear in mind that there is generally no such thing as a single "cost"; costs can be calculated in several ways. There are average costs over various lengths of time, overhead costs that can be amortized by a number of techniques, quantity-related variations, and so on. When items are being mass produced, the "cost" of a specific finished product depends on operating costs, which are bound to fluctuate. Additionally, what about the cost of failing to sell the item in a timely fashion—the "opportunity cost" of manufacturing one kind of item instead of another?

There are many reasons for selling merchandise at or below "cost." One of the most common is the attempt to secure a greater market share. Furthermore, a foreign market may be much larger than the home market, giving rise to economies of scale for goods shipped abroad which do not apply in the home market, so that even such price differentials as these are not sure signs of predatory intent.

Second, the sole purpose of production is consumption. This means that goods not consumed are wasted, and represent a loss of profit opportunity. In a competitive market, this prompts each manufacturer to concentrate on what he does best, and to continually improve his production techniques to hold the competition at bay. Profit is the essential link that drives this process. The profit incentive encourages innovation, and reinvested profits enable innovations to be brought on line. To operate deliberately at a loss is a risky strategy that, in the absence of government "assistance," can be kept up only for a short time.

Third, while it is true that a country's government may subsidize a favored industry, enabling that industry to outdo its rivals, this can be done only at the expense of other industries, rendering them less competitive. The net effect is to reduce overall productivity, putting the country as a whole at a competitive disadvantage.

This is so because the taxation required to shift capital to the favored industry tends to reduce incentives in both the favored and the taxed sectors. In addition, the act of collecting and distributing the tax is costly, with no offsetting increase in production. When the state diverts resources to its favored industries, the whole economy is rendered less efficient.

Fourth, the "dumping" of goods into the American market benefits U.S. consumers, who enjoy lower prices and thus increased purchasing power. The particular industry that competes with the cost-cutter does, of course, face a challenge. But rather than calling for tariffs and import quotas, a better strategy would be for the threatened company to cut overhead where possible, shift production to more profitable lines, and emphasize quality and/or promote product differences when

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advertising. Given this, an industry which is still uncompetitive will contract in favor of its rival, freeing up workers and capital for more profitable and therefore more productive endeavors.

If U.S. industries can't compete, it is largely due to misguided policies, both within the industries themselves and inflicted upon them by our own government. Before we blame Japan or Germany for our troubles, we would do well to get our own house in order. Taxation and inflation hurt our ability to compete, as do burdensome regulations. Pro-union legislation, pitting labor against management and nonunion workers, drives up costs. Tariffs and import quotas, which enable a company to continue operating in an inefficient manner, hurt overall productivity and thus harm consumers. In the case of Japan, we are foolish to accuse the Japanese government of subsidizing their industries, when we subsidize virtually all of Japan's defense, thus freeing much of their tax revenue for use in subsidies.

Economic principles are always the same, whether we consider trade across national boundaries, state borders—or across the street. People benefit from unrestricted trade. Attempts to restrain trade always reduce overall prosperity, particularly for consumers who would otherwise find the imported goods less expensive. It would be helpful if we could remember that the Japanese people trade with the American people, to the mutual benefit of both. We are partners in trade with the Japanese, not adversaries. □


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# BOOKS

**LORDS OF POVERTY: THE POWER, PRESTIGE, AND CORRUPTION OF THE INTERNATIONAL AID BUSINESS**
by Graham Hancock

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*Reviewed by David Osterfeld*

Foreign aid has reached immense proportions. If one excludes the billions spent yearly by private voluntary organizations such as the Hunger Project, Oxfam, and World Vision, and looks just at money raised by taxation and distributed by government agencies, the figure hovers around $60 billion a year. The budgets of most multinational corporations, including Standard Oil, IBM, Phillips, Nestlé, and Volkswagen, pale in comparison. And yet this figure, Graham Hancock, a former aid worker for the British Overseas Development Administration, points out, doesn't even include the billions more in government-to-government loans, unless they are "soft" or concessional loans. The question Hancock asks, and answers, in this explosive book is just whom is this "aid" aiding.

The chief, if not the sole beneficiaries of foreign aid, Hancock shows, are the local elites in the recipient countries, special interest groups in the developed counties, and the aid bureaucracy itself. The chief losers? The First World taxpayers and the poverty-stricken in the Third World.

The aid "industry" is quite lucrative for those who administer its programs. Incomes for employees of international agencies are determined by the "Noblemaire Principle," named after Georges Noblemaire, an employee of the League of Nations in the 1920s. According to this principle, salaries for employees of international organizations should be high enough "to attract as employees citizens of the country with the best-paid national civil service." United Nations pay rates, Hancock notes, must therefore exceed "those of the federal civil service of the richest country on earth—the United States."

As a result, not only does base pay for U.N. officials exceed that for U.S. civil servants by an average of 25 percent, but the fringe benefits are also far more lucrative. Promotion comes twice as fast for U.N. employees than for U.S. civil servants. It takes a U.S. civil servant 14 years to accumulate as much sick pay as a U.N. staffer is entitled to on his very first day. U.N. pensions exceed those of the U.S. civil servant by 43 percent. And this is only the beginning.

An increasingly large part of aid budgets is for travel (first class, of course). And most of the travel is not to poverty-stricken areas in the less-developed world, but to poverty seminars normally held at posh hotels in exotic and very attractive locations. In just one year, Hancock notes, the Executive Board of the Educational, Scientific and Cultural Organization received $1,759,584 for travel and lodging. During the same time it spent $49,000 on education for handicapped children in Africa, and $1,000 to train teachers in Honduras.

Interestingly, despite the Noblemaire Principle which is supposed to attract experts, U.N. agencies increasingly rely on the expertise of "outside consultants." The *minimum* salary for a consultant is $100,000. The average salary is probably closer to $150,000. Since the number of consultants exceeds 150,000, this puts the cost at more than $22 billion. When the salaries of the regular employees are combined with the costs of consultants, the amount is well over half of all that is spent by governments on aid each year. In fact, "personnel and associated costs," Hancock notes, "today absorb a staggering *80 percent* of all U.N. expenditures."

Groups with political clout in the First World are also major recipients. The purpose of food aid was and is to help dispose of farm surpluses in the First World. The tragedy of this is that struggling Third World farmers are often driven out of business by the influx of food aid. Similarly, the real rationale of other aid projects, as Hancock amply demonstrates, is not to help the poor in the Third World but the giant corporations in the First. Thus, between 80 percent and 99 percent of all aid money distributed to the Third World is actually spent in the First World in the form of purchase orders. "Western aid," as Hancock puts it, is used "to create profits for Western companies."

And finally, Hancock shows that it is no accident that some of the world's richest people live in the world's poorest nations. Aid has been regularly siphoned off by Third World leaders. Often this has been done, it should be noted, with the knowl-

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edge and thus implicit approval of the aid agencies themselves. The agency term for this larceny is "leakage." The figures reach into the billions of dollars: an estimated $10 billion for the Marcoses in the Philippines and perhaps $4 billion for President Mobutu in Zaire, to name just two.

Who pays the cost? The taxpayers in the First World and, more important and tragic, the poor in the Third World. To cite just a single example, the Akosombo Dam on the Volta River in Ghana was built with World Bank and other agency money. Its purpose was to provide inexpensive power to the U.S.-owned VALCO aluminum plant and to the wealthy sections of Accra, Ghana. In the process thousands of villagers were displaced, without compensation, when the dam flooded their lands. And since the dam's completion, well over 100,000 people living in the vicinity have been permanently incapacitated by river blindness. This is far from a unique case.

Aid programs in places such as Indonesia and Brazil have resulted in massive losses of life. Brazil has received $434.3 million to fund its huge resettlement program. The result was the needless destruction of millions of acres of tropical rainforest (3.6 million acres a year) and the decimation of many of the indigenous Indian tribes. Of the 13,000 settlers arriving in the resettlement areas each month, Hancock writes, "Their prospects for supporting themselves are virtually zero and, in addition, more than 200,000 are estimated to have contracted a particularly virulent strain of malaria . . . to which they have no resistance." Even the World Bank has acknowledged that the program has been "an ecological, human and economic disaster of tremendous dimensions."

Very similar has been the Bank-funded resettlement program in Indonesia: the destruction of millions of acres of rain-forest, bloody and savage fighting between ethnic tribes, and the death of 150,000 indigenous Timorese who opposed having their land used as a resettlement area for Javanese.

Hancock's conclusion is that the aid programs are so corrupt they are "utterly beyond reform" and should be abolished.

If there is any criticism of *Lords of Poverty* it is that, as John Hogan wrote in *Commonweal* (June 15, 1990), Hancock "offers no alternative." And since the problems are so immense, critics contend, it would be inhumane to abolish all aid. The point is well taken. The reader is left with the feeling that if only the rascals could be thrown out (admittedly a big if) and replaced by good, public-spirited bureaucrats, foreign aid could achieve its noble purpose. What is needed in *Lords of Poverty* is an explanation why foreign aid, *by its very nature*—by politicizing society, by generating large bureaucracies, by encouraging or even requiring recipient governments to pursue highly interventionist policies that scare off private investors and generate inefficiency—retards economic development.

But perhaps one shouldn't criticize an author for not doing what he never intended to do. As the book's subtitle indicates, the *Lords of Poverty* focuses on the "power, prestige, and corruption of the international aid business." Hancock does a remarkable job. His book deserves wide readership. □

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**THE MARKET ECONOMY: A READER**
edited by James L. Doti and Dwight R. Lee

Roxbury Publishing Company, P. O. Box 491044, Los Angeles, CA 90049 • 1991 • 375 pages • $26.95 cloth; $17.95 paper

*Reviewed by William H. Peterson*

This anthology lives up to its title. It outlines the characteristics and philosophical premises of a free society insofar as its political and economic ramifications are concerned. It points up how the world works better under freedom, under a regimen of social cooperation and division of labor; and it does so through the reprinted essays and thoughts of a good number of champions of liberty.

Here, to cite some examples, are Frederic Bastiat and his satirical "Candlemakers' Petition" pleading with the French government to stop the "unfair foreign competition" of the sun; here's David Ricardo on comparative advantage demonstrating the gains for international society stemming from free trade; here's John Stuart Mill setting down the limits of government so the free individual can live and let live.

Of more recent vintage the editors—Professor Doti of Chapman College and Professor Lee of The University of Georgia—serve up "Roofs or Ceilings? The Current Housing Problem" by Milton Friedman and George J. Stigler, a 1946 attack on the rent controls established by the World War

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**The Market Economy: A Reader** edited by James L. Doti and Dwight R. Lee is available from The Foundation for Economic Education in paperback at $17.95 plus $2.00 postage and handling. Visa and MasterCard orders are accepted. Please give your card number and its expiration date when ordering. Send or phone your order to The Foundation for Economic Education, 30 South Broadway, Irvington-on-Hudson, NY 10533.

II price-fixing agency, the U.S. Office of Price Administration. The Friedman-Stigler article, originally published by The Foundation for Economic Education, is still timely and relevant as the idea and application of rent controls continue to repress the supply of homes and thereby exacerbate the urban housing problem today from New York City to various cities in California.

Or here is an excerpt from Charles Murray's *Losing Ground* in which Murray observes the difficulties of fighting poverty through "helping the poor." One difficulty is the bureaucratic problem of defining eligibility which almost always includes some who are not truly needy and excludes others who are. Another difficulty seen by Murray is the problem of inadvertently subsidizing poverty—i.e., extending it indefinitely by inducing some welfare recipients to give up the search for independent livelihoods, to become wards of the state as long as they can.

Economists Doti and Lee reach out to non-economists to bolster their case for a market society. They include some of Ayn Rand's thinking in the form of the Hank Rearden statement on the moral meaning of capitalism as it appears in her novel, *Atlas Shrugged*. And they present Henry David Thoreau's case for civil disobedience in which Thoreau defends withholding his taxes so as not to help finance slavery or the Mexican War, an action which led to Thoreau's spending a night in the Concord jail.

In all, the 44 selections here add up to invaluable insights to the classical liberal philosophy of limited government and free markets. □

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## CAPITALISM

by Arthur Seldon

Basil Blackwell, 3 Cambridge Center, Cambridge, MA 02142 • 1990 • 419 pages • $29.95 cloth

*Reviewed by Carl O. Helstrom, III*

This book outlines the great ideological struggle between individualism and collectivism. Written with originality and vigor, it presents the latest arguments for capitalism and against socialism. The author, a leading libertarian thinker, clearly demonstrates capitalism's superiority over socialism, not only in theory, but in practice as well.

Seldon's education, his experience in private industry, and his pioneering work with the Institute of Economic Affairs (IEA) in Great Britain lend special forcefulness to his exposition. Born in 1916, a year before the Russian Revolution, Seldon grew up around London where the teachings of Fabian socialism inculcated British society.

His secondary school history instructor, an old-style liberal, first emphasized the benefits of capitalism to the young Seldon, whose personal belief in socialism began to wane even as socialistic ideas continued their ascendancy in Great Britain. He entered the London School of Economics in 1934, with a budding interest in classical liberalism and capitalism.

Seldon's growing suspicions about socialism were confirmed during World War II. "The interlude of war," he writes, "provided a practical lesson in socialism as it would be in real life." The wartime command system was continued after the war by socialists enamored with its accomplishments. As Seldon explains, "The intellectuals taught it; the public was led to think it was desirable; therefore the politicians acquiesced in it for electoral expediency even more than from philosophic conviction; and the bureaucracy reveled in its extended powers."

After World War II, Seldon became an economic adviser to British retail and brewing companies. In 1956, he became acquainted with the newly formed IEA, founded by agricultural entrepreneur Antony Fisher. Moved by Friedrich Hayek's *Road to Serfdom*, Fisher started the IEA to promote classical liberal ideas. He hired Arthur Seldon and Ralph Harris to run it, beginning an "intriguing partnership of complementing contrasts . . . [that] led for over 30 years to the most

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rewarding work that could have been wished for a life's career."

The history of the IEA is an important and interesting story in itself. A small and isolated voice at first, the IEA utilized a broad-based, educational approach, and eventually flourished thanks to Harris's knack for public relations and Seldon's research and publishing leadership. It has been instrumental in rekindling academic and popular interest in the freedom philosophy and market economics.

"Over the century," writes Seldon, "socialist thinking has prevailed over liberal teaching on the consequences, in all human behaviour, of state coercion, concentration of power, monopoly and producer myopia," mainly because people could see the imperfections of capitalism in the world around them. The socialists promised a perfect world, free from selfishness, struggle, and want, through centrally directed programs.

Socialists, however, built their case on the theory that the breakdown of capitalism and the success of socialism are inevitable. Over time every socialist experiment failed, proving that socialism as a system is not only illogical, but also impractical. According to Seldon, ". . . the vision of socialism not only remains a vision after a century or more of proselytizing; it is never likely to become reality until it resolves the unending circular reasoning in which it is entrapped: that human nature will not become selfless until scarcity is replaced by superabundance, but superabundance will not replace scarcity until human nature becomes selfless. . . ."

The crucial question has become: Which system, based on real historical evidence, can make the best guarantees for the most people? Seldon's answer, of course, is capitalism. He presents a clear, revitalized vision of capitalism by synthesizing new ideas, especially the innovations of Friedrich Hayek and the public choice theorists in the United States, with older classical liberal principles. He also systematically analyzes socialism, emphasizing particularly the empirical and historical proof that socialism has failed.

Despite his predilection for the capitalist system, Seldon tests capitalism as rigorously as socialism. Both systems claim to solve the same inherent human problems—ignorance, scarcity, unfairness, and want. So capitalism must prove itself with more than economic arguments. He finds the modern theory of capitalism to be imperfect, but concludes that capitalism is better than socialism because it offers relatively more to the world—more goods and services, more freedom, more security, and more opportunity.

Seldon's arguments are comprehensive and significant. He lays the groundwork for further intellectual advancement, and inspires classical liberals to continue the fight for a truly free society. □

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## THE POLITICAL ECONOMY OF SOVIET SOCIALISM: THE FORMATIVE YEARS, 1918-1928

by Peter J. Boettke

Kluwer Academic Publishers, 101 Philip Drive, Assinippi Park, Norwell, MA 02061 • 1990 • 246 pages • $49.95 cloth

*Reviewed by Aaron Wildavsky*

It has generally been thought that the Communist command economy that Joseph Stalin introduced into the Soviet Union in the early 1930s, with its nationalized industries, multi-year plans, and administered prices, was the epitome of socialism. Not so. The only effort to implement socialism-cum-communism (as it was understood by Karl Marx and the foremost socialist thinkers of the last quarter of the 19th century) was the earlier abolition of monetary exchange for commodities in favor of production for use, i.e., bypassing markets and money in favor of direct exchange of goods. For Marx believed that it was the process of exchange through money and markets that polluted human relationships by alienating workers from the products they produced.

Following the pioneering ideas of Michael Polanyi, Paul Craig Roberts, and Boris Brutzkus, Peter Boettke has written what must now be the major introduction to the ideas animating Communist economies. His first proposition is that Marx and his followers did indeed wish to substitute direct for monetary exchange. His second is that Lenin and his followers, taking Marx seriously, did indeed attempt to abolish resource allocation via market prices in favor of central direction by intellectual calculation via direct exchanges of commodities. His third proposition, the obverse of the second, is that the deliberate introduction of a Communist economic system wasn't forced on

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Lenin by the exigencies of civil war, but that he did what he and his followers always intended to do.

Why does this seemingly abstruse historical point matter? If Boettke and the tiny band of his predecessors are right in holding that socialist-cum-communist economics was actually tried, then they can also show that it failed, for all students of this period agree that war communism was a disaster. There is a great difference in claiming that the Stalinist political economy that failed was a deviation from true socialism and acknowledging that the real thing was a disaster. What about the evidence?

"The policies of war communism, I hope to demonstrate," Boettke writes, "were not born 'in the crucible of military expediency,' [as the major Western historians argue] but were born instead in the political economy of Karl Marx and were transformed into praxis [that funny word Marxists use to show they are serious] by Vladimir Ilyich Lenin from 1918 to 1921 in Soviet Russia."

Among the many pieces of evidence Boettke cites are these: banks were nationalized during the last days of 1917, foreign trade monopolized in April 1918, and large-scale industry nationalized in June. Private trading was forbidden and a monopoly on exchange granted to the Commissariat of Supply in November. The Supreme Economic Council declared in August 1918 that accounting had to be carried out without use of monetary measures. A vast expansion of the money supply cut the purchasing power of the ruble by 99 percent between October 1917 and October 1920, thereby demonstrating the low regard in which money was held. Everything that was then circulating as a form of money, at least among state enterprises, had to be handed over to the Peoples' Bank in May 1918. In August 1918, according to the Supreme Economic Council, receipts of goods and settlements (one hardly dare say "payments") for deliveries were to consist of accounting entries.

In this way was made good the common belief of Marx, his followers, and radical socialists that money would no longer be required once producers made goods directly for users. Hence, in the Marxist image, the fall of mankind, the split between private and public selves, would be made whole by workers not merely metaphorically but physically, by directly giving the work of their hands, minds, and bodies to other workers for the things they needed.

What, by contrast, is the Stalinist command economy? It is an effort to mimic the operation of markets by providing from central direction the same sorts of commands that a market system might were it allowed to operate. Money is there (albeit reduced somewhat in importance but by no means entirely); so is the price system. What is missing are only those things that make capitalism work and worthwhile—private property, the market price system, interest rates to ration capital, and capital markets. The devices of market exchange that simultaneously operate to elucidate preferences, to calculate marginal exchanges, to get rid of the worst products as resources are bid away to more productive uses and users, are abolished. With what result? There emerges an economy of shortages characterized by negative selection in which the least valued products, produced by the most politically powerful factories, get the most resources. Some call this state capitalism. A better way to express what has happened is that Stalin's misunderstanding of capitalism as a system that exploits workers by decreasing their consumption while coercing them to increase production, thus freeing up investments for economic growth, led him and his allies to use Communist collectivist forms to imitate individualist operations.

*The Political Economy of Soviet Socialism* is so good that it deserves a new chapter specifying in detail the operations of war communism. It is not enough to know that production decreased by anywhere from two-thirds to four-fifths; it is also important to understand the ways in which this proved unsatisfactory. It is true that Marx never had an opportunity to observe a Communist economy; one of the few benefits of the Bolshevik revolution is that it left behind a historical legacy of what such an economy was like. This fine book whets our appetite for more. □

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—Leonard E. Read

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—HERBERT SPENCER
(1820-1903)

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